

# **CHATTANOOGA CIVIC FACILITIES ASSESSMENT**

**WORKING VERSION**



**March 30, 2004**

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# CHATTANOOGA CIVIC FACILITIES ASSESSMENT

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## **I. EXECUTIVE SUMMARY AND APPROACH**

**Background and Approach.** The Tivoli Theater and the Soldiers and Sailors Memorial Auditorium (herein described as the “Civic Facilities”) support the City of Chattanooga’s (herein described as the “City”) cultural life. They provide venues for the Chattanooga Symphony and Opera Association, road tours and community events.

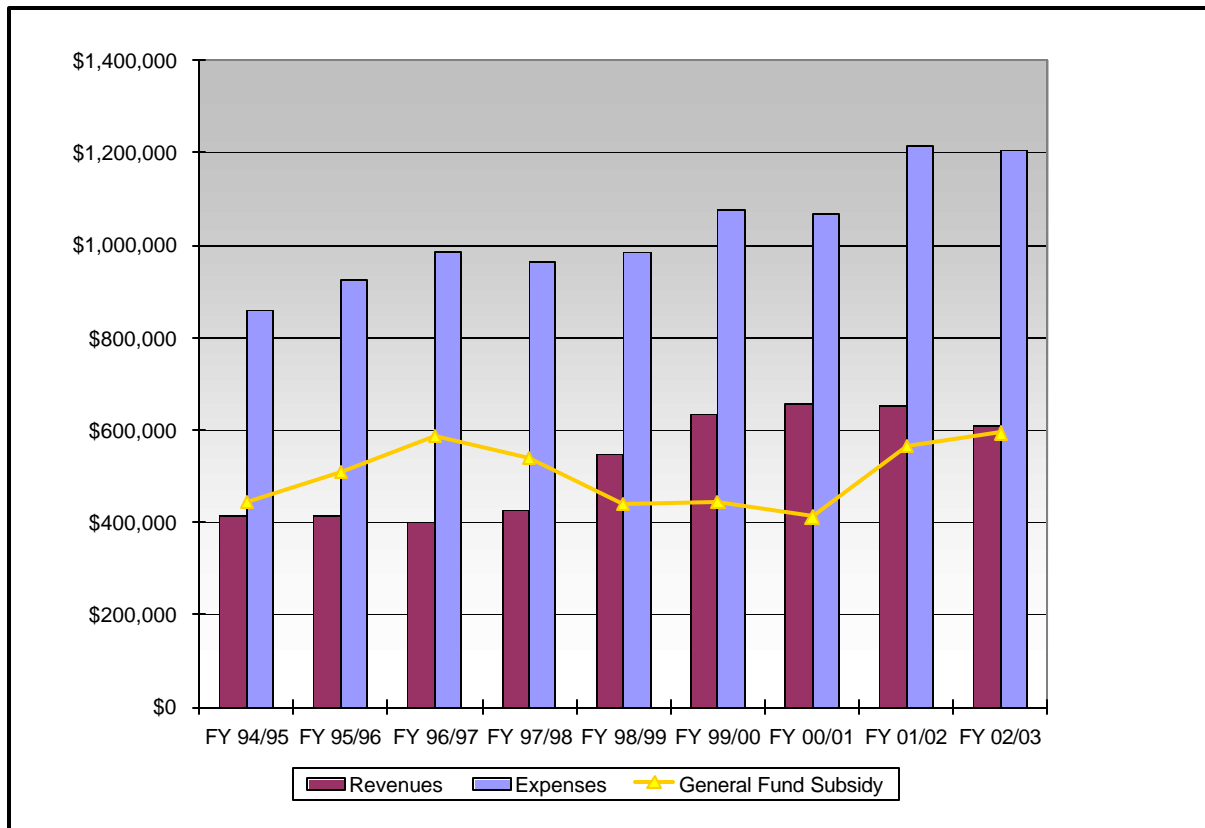
The City owns both Civic Facilities and operates them with City employees. The City funds capital improvements and directs transfers out of its General Fund to close gaps between the Civic Facilities’ expenditures and own-source revenues. In FY2003-04, the City is planning for nearly \$200,000 in capital improvements for its Civic Facilities, including a renovation of the Memorial Auditorium and Tivoli Theater. Additionally, the City remains committed to investment in technology and ensuring an ease of ticket payment by planning to issue a Request for Proposals (“RFP”) in FY2003-04 to provide online ticketing for the first time.

Despite the City’s commitments to make such investments, the Civic Facilities have been affected by the economic slowdown that has strained the budgets of many theaters and civic centers throughout the Country, resulting in revenues that have fallen increasingly short of expenditures. From FY1994-95 to FY2002-03, the Civic Facilities’ revenues have remained relatively flat — growing at an average annual rate of 1.7% — while expenses have increased by 4.5 percent.



The following chart illustrates these General Fund subsidy trends.

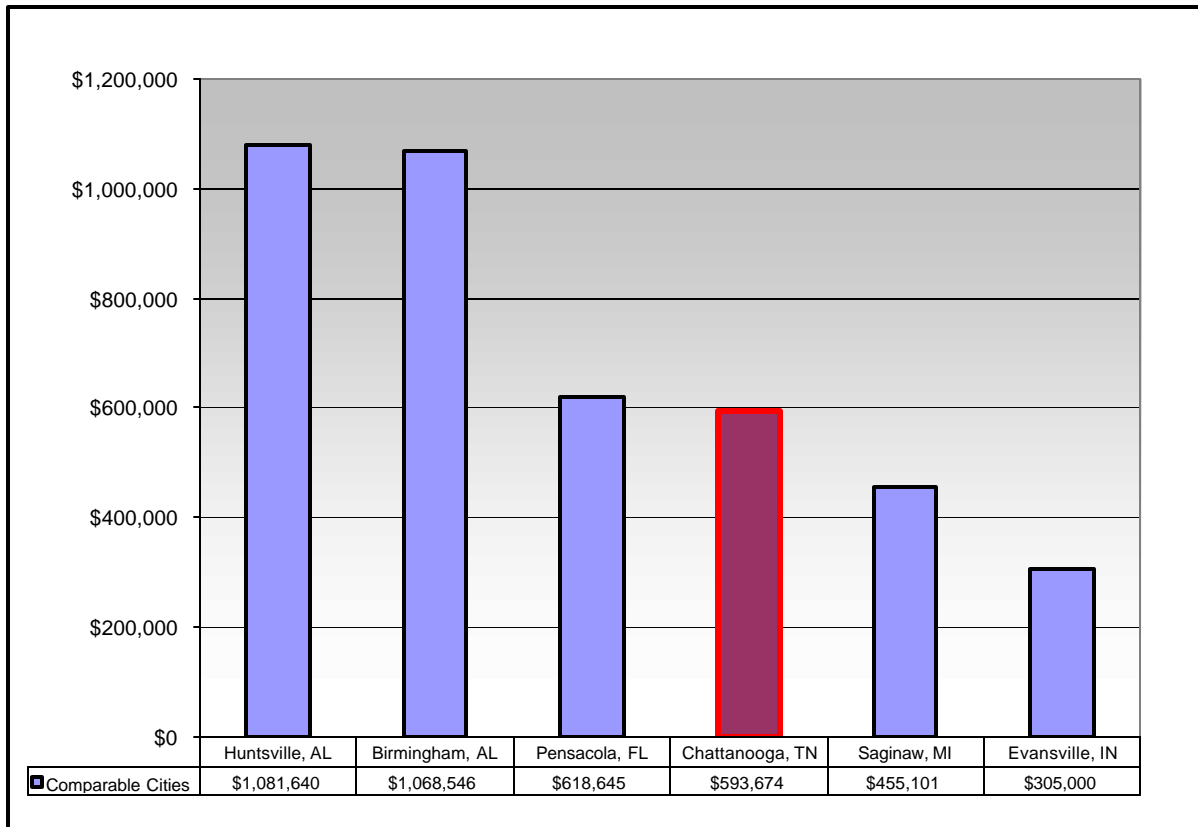
### CIVIC FACILITY GENERAL FUND SUBSIDIES 1994-95 TO 2002-03



Additionally, the effects of the sluggish national economy are evident in the following table, which illustrates the FY2002-03 General Fund subsidies needed to balance the budgets of several US civic facilities. The City's FY2002-03 General Fund subsidy was \$593,674, the fourth highest among subsidies in six comparable US cities.



# **COMPARISON OF CIVIC FACILITY SUBSIDIES FY2002-03**



Chattanooga faces the challenge of controlling the future expansion of General Fund subsidies and capital investment requirements in a tight fiscal environment without abandoning the Civic Facilities that enrich the City's cultural life and support downtown vitalization.

**Financial Challenges.** With no corrective action, the General Fund subsidy of the Civic Facilities is projected to total \$2.5 million over the next five years. Included in this amount is \$200,000 in FY2003-04 capital projects that will be funded out of the General Fund. The following General Fund subsidy projections of the Civic Facilities—developed by City staff and PFM—must be addressed.



**PROJECTED CIVIC FACILITIES GENERAL FUND SUBSIDY<sup>1</sup>**  
**FY2003-04 TO FY2007-08**

<b>Fiscal Year</b>	<b>Revenues</b>	<b>Total Expenses</b>	<b>Subsidy</b>
2003-04	\$589,578	(\$1,231,708)	(\$642,130)
2004-05	600,113	(1,050,908)	(450,795)
2005-06	600,893	(1,064,942)	(464,049)
2006-07	609,962	(1,073,736)	(463,774)
2007-08	620,076	(1,085,765)	(465,689)
<b>Total</b>	<b>\$3,020,622</b>	<b>(\$5,507,059)</b>	<b>(\$2,486,437)</b>

*\*Includes \$200,000 for capital improvements*

From FY2003-04, the average annual subsidy needed from the General Fund to support the Civic Facilities will be \$497,287. However, there are ways in which the Civic Facilities can both lower its General Fund subsidy and improve operating efficiency.

It is for this reason that Public Financial Management, Inc. (herein described as “PFM”) has assisted the City in preparing a Civic Facilities Assessment (herein described as the “Assessment”). The Assessment aims at identifying options to recover the Civic Facilities’ costs through exploring potential revenue enhancement and cost containment initiatives that are either under control of Civic Facilities’ management to implement or require City Council’s authorization.

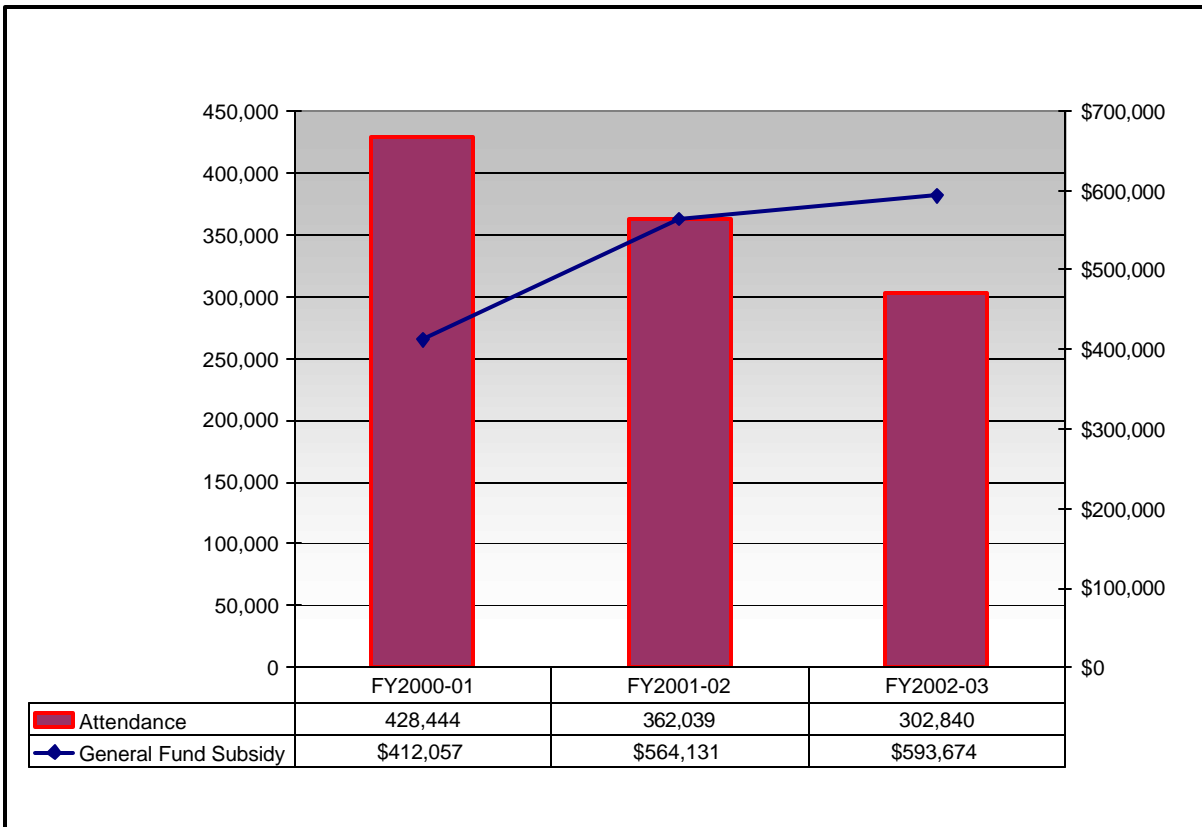
The Assessment includes a review of financial, labor, activity level, and other operational aspects of the Civic Facilities to determine the causes of their fiscal strain. The Assessment also draws upon benchmarks of comparable facilities across the Country – analyzing municipal facilities that have demonstrated superior fiscal performance – to identify practices that may be applied in Chattanooga, and support the establishment of a reasonable cost containment target that would reduce the level of the City’s Civic Facilities’ General Fund subsidy, while maintaining or improving current service levels. The following are the major challenges faced by the Civic Facilities that are addressed in the Assessment.

- 1) **Increasing Usage.** The major challenge facing the Civic Facilities involves increasing total usage. As illustrated by the chart below, from FY2000-01 to FY2002-03, the General Fund subsidy of the Civic Facilities has increased by 44.0% from \$412,057 to \$593,674 while total attendance has decreased by 29.0% from 428,444 to 302,840.

<sup>1</sup> Future Civic Facilities revenues and expenses were derived using an unbiased method of projection. Additionally, to account for nationwide economic conditions, future revenues were further discounted by 25.0%. Also includes the assumption of \$150,000 per year preservation fee revenue.



# **CIVIC FACILITIES ATTENDANCE VS GENERAL FUND SUBSIDY FY2000-01 TO FY2002-03**



The following section details key event booking and usage trends by Civic Facilities' venue that have lead to the conclusions summarized in the chart above.

## **Memorial Auditorium**

- From FY2000-01 to FY2002-03, the Memorial Auditorium's total number of events fell from 135 to 96, representing a 29.0% decline.
- From FY2000-01 to FY2002-03, the attendance of the Memorial Auditorium declined by 40.0% – from 240,126 to 144,021.
- From FY2000-01 to FY2002-03, the Memorial Auditorium had an average annual usage (i.e. the amount of days per year the venue features events) of 123 events (representing only 34.0% average usage per year) and average occupancy (i.e. attendance as a percent of total capacity) of 47.0 percent. This represents a decrease of 41.0% from the previous fiscal year, in which there was a total usage of 207 events. In FY2002-03, the Memorial Auditorium has hosted 96 events.



- Attendance for the Memorial Auditorium's top-tier shows averages only 1,598 people, representing 46.0% capacity. Evansville, Huntsville and Pensacola report capacity of approximately 80.0% for these types of shows.

### **Tivoli Theater**

- From FY2000-01 to FY2002-03, the Tivoli Theater ranked at the lower end of comparable facilities in total number of events with 368, 34.0% less than Birmingham's total of 559, 18.0% less than Evansville's total of 450 events, 6.0% less than New Haven's total of 390 and 19.0% more than the Huntsville's total of 298 events.
- From FY2000-01 to FY2002-03, the attendance the Tivoli Theater was the lowest among comparable facilities. The Tivoli Theater's total attendance during this three-year period was 398,420, 38.0% less than Birmingham's attendance of 644,962, 22.0% less than Evansville's total attendance of 511,419, and 1.0% less than Huntsville's attendance of 403,336.

- 2) **Increasing Revenues.** As noted, from FY1994-95 to FY2002-03, the Civic Facilities' revenues have increased by an average annual rate of 1.7% compared to an average annual increase in expenses of 4.5 percent.

Primarily, the Civic Facilities have lost considerable revenues from an underdevelopment of its concession operations. Civic Facilities' concessions have averaged \$46,717 over the past five fiscal years, representing an average of 8.0% of total revenues. Comparatively, Huntsville has derived over 50.0% of its total revenues from its concessions, with \$3.5 million in FY2002-03. Additionally, the second major revenue stream for Evansville is its concessions revenue at 16.1% of total revenues in FY2002-03 and the Pensacola Civic Center reports that concessions account for one of its three top revenue sources.

Additionally, the Civic Facilities have not explored generating revenues from other programs such as corporate sponsorships and donations.

- 3) **Cost Containment.** The Civic Facilities should also identify cost containment measures.

The major driver of Civic Facilities' expenses is personnel costs. With average costs of \$529,174 over the past three years, the Civic Facilities' personnel costs have accounted for an average of 83.0% of total revenues. The Civic Facilities should explore reducing these costs through outsourcing the management of the Civic Facilities or exploring productivity enhancement initiatives.

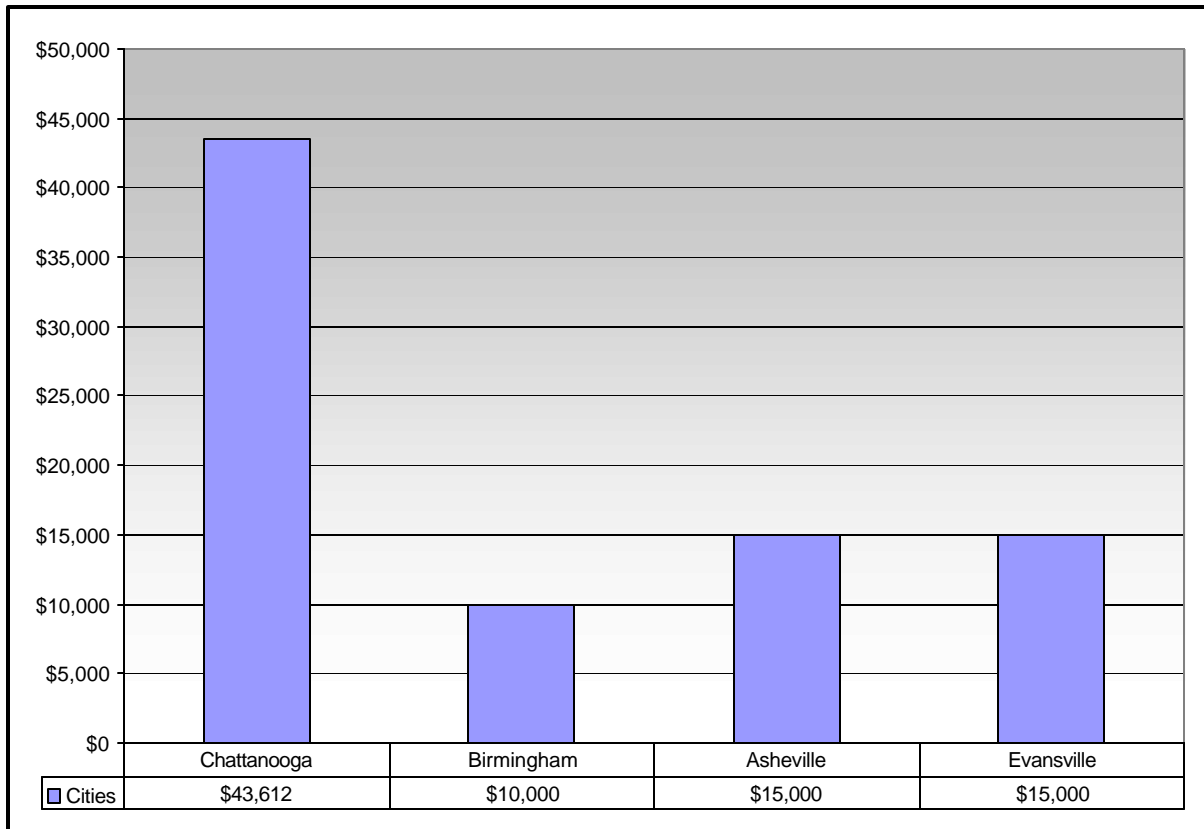
Another major component of Civic Facilities' expenses is employee overtime. In FY2002-03, the City had approximately \$43,000 in overtime. Compared to several





comparable cities, the overtime expense of the City is considerably higher. The following table compares annual overtime expenses among comparable cities.

### COMPARISON OF OVERTIME TRENDS FY2002-03



**Management Initiatives.** The Assessment recommends management initiatives accompanied by an estimate of their net fiscal impact for each of the next five years, to support the incorporation of each initiative into the City's annual budget and long-term financial planning processes. The Assessment also applies a discounting methodology to account for the timing and likelihood of implementation. The following is a summary of the major categories of management initiatives:

- 1) *Management initiatives that allow the City to maintain a municipally owned and operated management structure of its Civic Facilities.* All of the initiatives in this category are within the control of the City Council or Civic Facilities' management to implement. **The projected fiscal impact of these initiatives is \$2.2 million, including an eventual elimination of the City's General Fund subsidy.** Initiatives in this category include measures to develop the City's concessions, as well as initiatives that explore a modest increase in preservation fees, internet ticketing and the generation of new revenue sources. Should surpluses be derived from these initiatives, they could be used to offset capital improvement



costs of the City, expand community programming, or be returned to the General Fund.

2) *Management initiatives that allow the City to effect a publicly owned and privately operated management structure for its Civic Facilities.* The following are the initiatives that fall under this category:

- Outsourcing all aspects of the Civic Facilities' operations (e.g. ticketing, concessions, marketing, etc.). This would affect a municipally owned/private operated management structure of the Civic Facilities, a more streamlined management structure than the option presented in category "1". **The total fiscal impact of this initiative is \$887,528 and an eventual elimination of the General Fund subsidy of the Civic Facilities.**
- *An initiative to lease the Civic Facilities to a private contractor for a fee.* This initiative would allow the City to eliminate its General Fund subsidy of the Civic Facilities in less than two years and provide the City with recurring revenue from the lease fee. However, under this structure, the City would have minimal influence as to the direction of the Civic Facilities and how the private company chooses to operate the facility. This initiative will allow the City to effectively eliminate its General Fund subsidy once a lease agreement is reached. **The total fiscal impact of this initiative is \$1.2 million, including an eventual elimination of the City's General Fund subsidy of the Civic Facilities.**

3) *A management initiative to sell the Civic Facilities, which entails the City relinquishing ownership of the Tivoli Theater and Memorial Auditorium.* This initiative would relieve the City's General Fund subsidy of Civic Facilities' activities quickly, and would return to the General Fund revenue representing the assessed value of the Civic Facilities and property tax on that land each year. However, the City would lose its Civic Facilities, a staple of its tourism and cultural environment. **The total fiscal impact of this initiative is to be determined based on City stipulations.**

**Benchmarking.** Benchmarking the Civic Facilities to other facilities is a key part of the Assessment. In identifying comparables to the Civic Facilities, PFM looked for a mix of secondary and primary market venues that have between 1,500 and 5,000 seats and a similar layout as the Tivoli Theater and Memorial Auditorium. A primary market venue is typically a facility in a city with a population greater than 750,000 citizens that is able to support premier shows on a regular basis. A secondary market venue is typically a facility in a city with a population ranging from 50,000 to 750,000 citizens that is not able to support premier shows on a regular basis.

The list of comparable facilities below includes venues that are both publicly owned and operated and privately owned and operated. By including both types of venues in the



Assessment, it is possible to clearly identify the benefits of private management regarding General Fund subsidy, attendance and event booking trends. Additionally, the Assessment also draws upon information from several larger national venues that—while not comparable in size and market—have implemented sound management policies that may be applied universally to any venue for the benefit of cost containment or revenue enhancement. The following is a brief listing by category of those venues that are drawn upon at different points throughout the Assessment.

### **Secondary Market Comparables**

- Concert Hall at the Von Braun Center, Huntsville, AL
- Municipal Auditorium at the Von Braun Center, Huntsville, AL
- Asheville Civic Center, Asheville, SC
- Boutwell Auditorium, Birmingham, AL
- Boutwell Jefferson Convention Complex (“BJCC”), Birmingham, AL
- Knoxville Convention Center, Knoxville, TN
- Charlotte Municipal Auditorium, Charlotte, NC

### **Successfully Privatized Civic Facilities**

- Pensacola Civic Center, Pensacola, FL
- Dallas Music Hall and Majestic Theater, Dallas, TX<sup>2</sup>
- Saginaw Convention Center, Saginaw, MI
- Memphis Cook Convention Center, Memphis TN
- Evansville Auditorium, Evansville, IN
- Victory Theater, Evansville, IN
- Stevens Theater, Ames, IA
- Palace Performing Arts Center, Albany, NY
- New Orleans Cultural Arts Center, New Orleans, LA

### **National Civic Facilities Comparables**

- Chicago Theater, Chicago, IL
- Shubert Theater, New Haven, CT

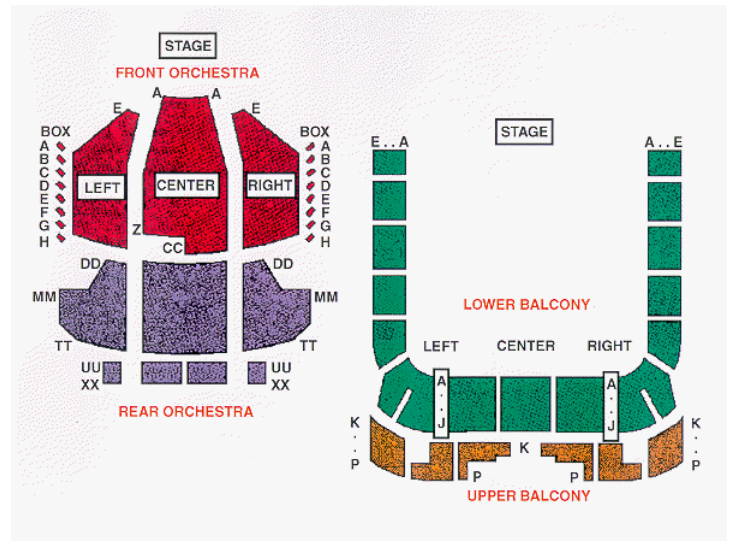
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<sup>2</sup> Originally operated as secondary market facilities; contractor was able to turn around the financial performance of facilities and dramatically increase attendance and profits.



## II. BACKGROUND OF CIVIC FACILITIES

### SOLDIERS AND SAILORS MEMORIAL AUDITORIUM



**Soldiers and Sailors Memorial Auditorium.** Soldiers and Sailors Memorial Auditorium was opened on February 22, 1924. The Auditorium was built at a cost of \$700,000 and designed by architect R.L. Hunt. The Auditorium served as Chattanooga's primary all-purpose meeting and event hall and largest capacity indoor entertainment venue.

By the 1960's, the Memorial Auditorium was in need of repair. Civic groups including the Kiwanis Club, Chamber of Commerce and Allied Arts Council headed a renovation, which was approved by the City Commission in 1964. The City authorized a \$4.0 million bond issue, of which \$1.0 million was earmarked for the renovation of the Memorial Auditorium. A few months later, an expanded renovation plan was approved, with a budget of \$2.1 million. The Memorial Auditorium closed for almost a year, reopening on November 6, 1966.

By 1985, the mission of the Auditorium had changed. The completion of the University of Tennessee at Chattanooga's ("UTC") McKenzie Arena and the Chattanooga Convention and Trade Center ("Trade Center") had eliminated the need for an all-purpose hall. The Auditorium would serve Chattanooga as a mid-sized theater and concert venue.



A coalition of civic and veterans groups led by former Chattanooga Mayor Robert Kirk Walker persuaded the community that it was time to reinvest in the Memorial Auditorium. Five million dollars in public funds and almost \$2.0 million in private contributions were raised. The Auditorium was reopened on January 31, 1991.

The Auditorium now features 3,866 seats and has a size of 100,000 square feet. Technical improvements included new dressing rooms, a hydraulic orchestra lift, state-of-the-art sound and lighting systems, and increased stage depth. However, the major change was that the Auditorium had been converted from an all-purpose exhibition hall with a flat floor and movable seating to a sloped concert hall with permanent seating and greatly improved sightlines.

**Programming.** The Memorial Auditorium is a secondary market venue committed to attracting a diverse mix of shows. In FY2002-03, the Memorial Auditorium programming consisted of 96 events, of which there were 12 Broadway shows, 53 family shows, 11 concerts, five dance shows, and seven student shows. There were also eight rentals. The following chart illustrates the event breakdown of the Memorial Auditorium from FY2000-01 to FY2002-03:

#### MEMORIAL AUDITORIUM NUMBER OF EVENTS

Event Type	FY2000-01	FY2001-02	FY2002-03	Total
Broadway	6	23	12	41
Family	79	60	53	192
Concert	22	27	11	60
Dance	5	5	5	15
Classic				
Opera				
Student	20	15	7	42
<b>Sub-Total: Primary Presented Performing Arts Events</b>	<b>132</b>	<b>130</b>	<b>88</b>	<b>350</b>
Rentals	6	5	8	19
<b>Total Events</b>	<b>138</b>	<b>135</b>	<b>96</b>	<b>369</b>

As illustrated by the above chart, the majority of the Memorial Auditorium's events are family shows. Between FY2000-01 and FY2002-03, the Memorial Auditorium's family shows as a percentage of total shows have declined from nearly 60.0% in FY2001-02 to 28.0% in FY2002-03.

Comparatively, Birmingham's Boutwell Auditorium is similar in booking trends to the Memorial Auditorium, while Iowa's Stevens Theater and Indiana's Evansville Auditorium are not. Over the past three years, the Boutwell Auditorium has derived approximately 60.0% of its ticket sales from religious and family shows, while the Stevens Theater and Evansville Auditorium have derived the majority of their ticket sales from first run Broadway Shows (approximately 60.0% of total shows).



The following chart compares the amount of events featured at the Memorial Auditorium to the Boutwell Auditorium, Stevens Theater and Evansville Auditorium.

**MEMORIAL AUDITORIUM  
NUMBER OF EVENTS COMPARISON  
FY2000-01 TO FY2002-03**

Venue	FY2000-01	FY2001-02	FY2002-03	Total
Boutwell Auditorium (Birmingham, AL)	215	236	256	707
Stevens Theater (Ames, IA)	138	166	141	445
<b>Memorial Auditorium</b>	<b>138</b>	<b>135</b>	<b>96</b>	<b>369</b>
Evansville Auditorium (Evansville, IN)	103	102	104	309

In FY2002-03 the Memorial Auditorium's total number of events had fallen sharply, from 135 in FY2001-02 to 96 in FY2002-03, representing a 29.0% decline. Management attributes these trends to the national economic slowdown following September 11, 2001 and a lack of market reception to the Memorial Auditorium as a venue.

Additionally, among comparable facilities, the Boutwell Auditorium featured significantly more events from FY2000-01 to FY2002-03. In FY2002-03, the Boutwell Auditorium had 45.0% more events than the Stevens Theater, 59.0% more events than the Evansville Auditorium and 63.0% more events than the Memorial Auditorium.

**Attendance.** As shown in the following table, from FY2000-01 to FY2002-03, the attendance of the Memorial Auditorium had fallen by 29.0% from 234,750 to 151,097.

**MEMORIAL AUDITORIUM ATTENDANCE  
FY2000-01 TO FY2002-03**

Event Type	FY2000-01	FY2001-02	FY2002-03	Total
Comedy	5,873	6,256	9,369	21,498
Concerts	34,938	36,927	15,742	87,607
Religious	53,800	46,400	27,916	128,116
Broadway	11,112	72,243	73,553	156,908
Family	110,964	40,983	21,452	173,399
Student	14,963	7,530	2,315	24,808
Dance	3,100	2,700	750	6,550
Classic	0	0	0	0
<b>Total Events</b>	<b>234,750</b>	<b>213,039</b>	<b>151,097</b>	<b>598,886</b>

Additionally, the Stevens Theater and Evansville Auditorium each report approximately 75.0% facility capacity for the previously reviewed shows, compared to the Memorial Auditorium's average of 46.0% capacity for the shows reviewed.





**Events.** A key driver in attendance and the number of events at a facility is its booking policy and the types of events presented. While the Memorial Auditorium and Birmingham's Boutwell Auditorium focus on attracting large family shows to the venues, Iowa's Stevens Theater and Indiana's Evansville Auditorium focus on selling subscriptions to first run Broadway shows and promoting family and children's shows. In a show subscription, a facility sells passes to an entire program (i.e. in a manner similar to selling a season's pass to a sporting event) for a reduced per show rate to attract visitors. The Civic Facilities also features a subscription program to four Broadway shows. While these programs perform well relative to other shows, Civic Facilities' management asserts that the City does not have the market or the leverage to expand its Broadway subscription program beyond four to five shows per year. Civic Facilities' management instead focuses on attracting family shows.

As noted, from FY2000-01 to FY2002-03, the attendance of the Memorial Auditorium declined by 40.0% – from 240,126 to 144,021. As one way to analyze the cause of these trends, PFM has compared the types of events booked at the Memorial Auditorium compared to other facilities (i.e. both municipally and privately operated) and the level of attendance that should be expected at these events, PFM contacted several facility management organizations across the Country and asked them to rate the most highly attended events at the Memorial Auditorium over the past few years. The organizations rated the shows either "Low", "Medium" or "High." A show's rating was based on its average attendance per show, average revenue per show and national reputation. Below are examples of the types of shows that fall under each category, followed by a rating and categorization of the Memorial Auditorium's highest selling events.

#### **SHOW PERCEPTION ANALYSIS EXAMPLES OF HIGH, MEDIUM, AND LOW-RATED SHOWS**

<b>High</b>	<b>Medium</b>	<b>Low</b>
Miss Saigon	Trail of Tears	The Gingerbread Man
Full Monte	Swing	Carrot Top
Grease	The Ugly Duckling	Miss Rhomania
Lord of the Dance	Cinderella	The Velveteen Rabbit
Jesus Christ Superstar	Charlotte's Web	Cedric the Entertainer
Cats	South Pacific	Hip Hop Invasion
Main Stream Musicians/Performing Artists	A Christmas Carol	Student Shows

As demonstrated by the following table, the majority of the Memorial Auditorium's events were rated "Medium", suggesting that although these shows should be capable of generating a fair amount of revenues and a reasonable level of local appeal, they are not expected to effect maximum attendance and profit levels.



**RATING AND CAPACITY OF FY2002-03  
HIGH SELLING MEMORIAL AUDITORIUM EVENTS**

<b>Name of Event</b>	<b># of Events</b>	<b>Average Attendance per Event</b>	<b>% Capacity</b>	<b>Rated Ability to Boost Attendance and Profit</b>
Hip Hop Invasion	1	1,054	28.9	Medium
A Christmas Carol	1	1,509	41.4	Medium
Lord of the Dance	1	1,329	36.5	High
Cinderella	1	1,969	54.0	Medium
Miss Saigon	8	971	26.6	High
Scooby Doo In Stagefright	6	1,378	37.8	Medium
Charlotte's Web	1	2,300	63.1	Medium
South Pacific	1	2,024	55.5	Medium
Grease	1	1,306	35.8	High

However, the attendance for the Memorial Auditorium's highest draws averages only 1,598 people, representing 46.0% capacity. This signals that there is insufficient marketing of the Memorial Auditorium events and a lack of public reception to this venue.

Comparably, Birmingham's Boutwell Auditorium does not feature first run Broadway shows. Rather, it derives its attendance from its family shows. The Boutwell Auditorium reports that its best selling events are Chonda Pierce (religious comedy), Sandi Patti (concert), Newsboys (religious) and Foo Fighters (alternative rock). While management organizations rated these events in the range of "Medium", like the Memorial Auditorium, these events are usually featured on a one day at a time basis. For these events, the Boutwell Auditorium averages approximately 60.0% capacity, a level higher than the Memorial Auditorium.

Moreover, comparable venues that are privately operated—the Evansville Auditorium and the Stevens Theater—displayed a similar mix of Broadway and first run shows as the Memorial Auditorium. Shows at the Evansville Auditorium and the Stevens Theater were all rated "High." The following is a side-by-side listing and perception of the most highly attended events at the Memorial Auditorium, Stevens Theater and Evansville Auditorium.

Like the Memorial Auditorium, shows presented at the Stevens Theater and Evansville Auditorium are also run for periods of one to two days at a time.





**SHOW PERCEPTION ANALYSIS  
COMPARISON OF FEATURED EVENTS**

<b>Memorial Auditorium</b>	<b>Rated Ability to Boost Attendance and Profit</b>	<b>Stevens Theater</b>	<b>Rated Ability to Boost Attendance and Profit</b>	<b>Evansville Auditorium</b>	<b>Rated Ability to Boost Attendance and Profit</b>
Hip Hop Invasion	Medium	Cats	High	Music Man	High
A Christmas Carol	Medium	Sound of Music	High	Fosse	High
Lord of the Dance	High	Music Man	High	Blast	High
Cinderella	Medium	Fosse	High	Swing	High
Miss Saigon	High	Cabaret	High	George Carline	High
Scooby Doo In Stagefright	Medium	Blast Two Shockwave	High	Blues Clues	High
Charlotte's Web	Medium	Stomp	High	Sesame Street Live	High
South Pacific	High	Moody Blues	High	Gallagher	High
Grease	High	Gallagher	High	Loretta Lynn	High

**Fees.** For FY2002-03, management estimates that over 60 days will be dedicated to local community rental events at the Memorial Auditorium. Principal rental tenants include churches, Kiwanis Travelogue, and school-related events. Rental fees range from \$1,200 (resident non-profit, Monday to Thursday) to \$1,650 (for profit, Monday to Thursday). A schedule of Memorial Auditorium fees is as follows:



**MEMORIAL AUDITORIUM  
FEE SCHEDULE**

<b>Fee</b>	<b>Rate</b>
Resident Non-Profit (Mon-Thurs)	\$1,200
Resident: Non-Profit (Fri-Sun)	\$1,450
Non-Profit (Mon-Thurs)	\$1,300
Non-Profit (Fri-Sun)	\$1,550
For Profit (Mon-Thurs)	\$1,400 vs. 10.0% (no cap)
For Profit (Fri-Sun)	\$1,650 vs. 10.0% (no cap)
Move-in and Rehearsal	50.0% of the performance base rate
Ticket Printing	\$.15 per ticket printed
Credit Card Proc. Fee	4.0%
Stamps-Mail Orders	\$.37 each
Box Office Fees	\$35 per day \$20 per performance
Taxes (State)	9.25%
Taxes (City and County)	3/16 of 1.0% plus \$5.00 recording fee
Business License (City & County)	\$20 each
Stage Employees	\$12 per hour (4 hr. min.) Plus 10.0% administrative fee
House Payroll (Ushers)	\$988
Security	\$18 per hr. (4 hr. min)
T-Shirt Security	\$6 per hr. (4 hr. min)
Liability Insurance	\$250 min. per performance

Additionally, the following charts illustrate the fees of Birmingham's Boutwell Auditorium and the Asheville Civic Center. As illustrated by both charts, the fees charged at these facilities are comparable to those charged at the Memorial Auditorium.



**BOUTWELL AUDITORIUM  
FEE SCHEDULE**

<b>Fee</b>	<b>Rate</b>
Rental	\$1,500 minimum or 10.0% of gross
Rental Deposit	\$1,000 non-refundable
Stage Hands	At prevailing market rate
Security Supervisor	\$75 total charge
Ticket Takers	\$35 four hour minimum
Doorman	\$25 four hour minimum
Bartenders	\$45 four hour minimum
Coat Checking	\$40 four hour minimum
Ushers	\$60 total charge
Security	\$60 four hour minimum
Concert Business License	\$100 City; \$16.50 County
Stage Barricade	\$150 service charge
Sound System	\$150 includes two microphones.
Sound System Operator	At prevailing market rate
Spotlights (4)	\$75 each spotlight, each performance

As illustrated below, the rental fee rate of \$1,500 for the Boutwell Auditorium mirrors the Asheville Civic Center. The following table illustrates rental rates for all facilities within the Asheville Civic Center.

**ASHEVILLE CIVIC CENTER  
FACILITY RENTAL RATES**

<b>Fee</b>	<b>Rate</b>
Civic Center Rental Fees	\$1,500 minimum or 10.0% of gross
Exhibit Hall Rental Fees	At prevailing market rate
Banquet Hall Rental Fees	\$75 total charge
Arena Annex Rental Fees	\$35 four hour minimum

**Usage.** The table below illustrates the usage trends of the Memorial Auditorium. From FY2000-01 to FY2002-03, the Memorial Auditorium has had a total usage of 123 events (representing 34.0% of the year) and an average occupancy of 47.0 percent. This represents a decrease of 41.0% from the previous fiscal year, in which there was a total usage of 207 events (representing 57.0%). In FY2002-03, the Memorial Auditorium hosted 96 events.



**MEMORIAL AUDITORIUM USAGE  
FY2000-01 TO FY2002-03**

	<b>FY2000-01</b>	<b>FY2001-02</b>	<b>FY2002-03</b>	<b>Total</b>
Number of Events	138	135	96	369
Rehearsals	17	27	18	62
Other Usage	24	45	9	78
<b>Total</b>	<b>179</b>	<b>207</b>	<b>123</b>	<b>509</b>

The Memorial Auditorium, while known as a concert hall and performing arts venue, is also available for meetings, conventions, trade shows and receptions.

**EXHIBIT HALL AT THE MEMORIAL AUDITORIUM**



A fully carpeted Exhibit Hall on the basement level includes over 9,600 square feet of display space plus an outer concourse. Restrooms and a permanent concession stand are adjacent. Public access is either by escalator from the lobby, or through separate entrances. A loading door at street level permits trucks to drive in. The Exhibit Hall has hosted small trade shows, and can easily accommodate a banquet set-up or up to 400 people.

Adjacent to the Exhibit Hall are the dressing rooms and show offices used by performers. These are often available as meeting rooms and lounges. Additional meeting and breakout rooms are located on the three upper levels.



## COMMUNITY THEATER AT MEMORIAL AUDITORIUM

In addition to the main hall with a seating capacity of 3,866, the Memorial Auditorium also includes the smaller Community Theatre upstairs from the main level. This 1,012-seat theater with proscenium stage is accessible by escalator from the lobby. Designed for community theatrical productions, the Community Theatre has hosted lectures, dance recitals, educational programs and concerts.

**Programming.** The Community Theater is primarily used as rental house for religious and school related events. In FY2002-03, the Theater had 31 family events (which primarily includes church-related events). The following chart illustrates the programming trends of the Community Theater from FY2000-01 to FY2002-03. Due to the loss of a major tenant and the effects of a sluggish economy, total number of events at the Community Theater has fallen by 60.0% during FY2000-01 to FY2002-03 from 96 to 38.

### COMMUNITY THEATER NUMBER OF EVENTS FY2000-01 TO FY2002-03

Event Type	FY2000-01	FY2001-02	FY2002-03	Total
Broadway				
Family	90	30	31	151
Comedy				
Dance		2	2	4
Classic				
Opera				
Student	6	6	5	17
<b>Total Events</b>	<b>96</b>	<b>38</b>	<b>38</b>	<b>172</b>

**Attendance.** The following chart demonstrates the attendance of the Community Theater for FY2000-01, FY2001-02 and FY2002-03. The Community Theater has derived the majority of its attendance from its student related events (approximately 95.0% of total events).



**COMMUNITY THEATER  
ATTENDANCE  
FY2000-01 TO FY2002-03**

Event Type	FY2000-01	FY2001-02	FY2002-03	Total
Comedy				
Concerts				
Religious	60,925	7,700	425	69,050
Broadway				
Other*	4,987	8,003	13,977	26,967
<b>Total</b>	<b>65,912</b>	<b>15,703</b>	<b>14,402</b>	<b>90,017</b>

*\*Numbers include Comedy, Dance, Classic, Opera, and Student Shows*

**Usage.** The following chart demonstrates the usage at the Community Auditorium. For FY2002-03, the Community Theater had a total usage of 138 events, representing 38.0% total occupancy for that year. Total facility usage declined by 59.0% from FY2000-01 to FY2002-03. Management attributes this sharp decline in usage to the loss of a major church client who used the Community Theater while necessary capital improvements were made to its place of worship.

**COMMUNITY THEATER USAGE  
FY2000-01 TO FY2002-03**

	FY2000-01	FY2001-02	FY2002-03	Total
Number of Events	96	38	38	172
Load-Ins and Rehearsals	13	7	31	51
Other Usage	109	45	69	223
<b>Total</b>	<b>218</b>	<b>90</b>	<b>138</b>	<b>446</b>

*\*Includes Family Theater Workshop*

**Fees.** As noted, the Community Theater derives the majority of its attendance from its rentals. Rental fees range \$450 per show per tenant. However, the Civic Facilities have granted a 50.0% reduction in the rental rate to its family theater workshop participants and a church within the City that used the facility 52 times per year on average. A schedule of all Community Theater fees is as follows:

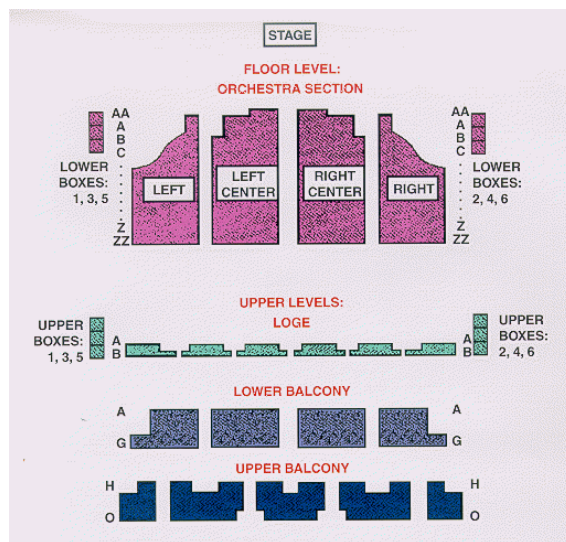


**COMMUNITY THEATER  
FEE SCHEDULE**

<b>Fee</b>	<b>Rate</b>
Rent	\$450
Move-in and Rehearsal	\$225
Ticket Printing	\$.15 per ticket printed
Credit Card Proc. Fee	4.0%
Stamps – Mail Orders	\$.37 each
Box Office Fees	\$35 per day \$25 per performance
Taxes (State)	9.25%
Taxes (City and County)	\$20 each
Stage Employees	\$12 per hour Plus 10.0% admin fee
House Payroll (Ushers)	\$384
Security	\$18 per hour (4 hr. minimum)
T-Shirt Security	\$6 per hour
Liability Insurance	\$250 minimum per performance



## TIVOLI THEATER



**Tivoli Theater.** Chattanooga also features the Tivoli Theater. The Tivoli Theater opened on March 19, 1921 following two years of construction, which cost \$1.0 million. The Tivoli Theater's interior reflects the Beaux Arts style popular for movie palaces of the 1920's.

Throughout the 1920's, 30's and 40's, the Tivoli Theater was Chattanooga's premier movie and variety theater. However, with the emergence of television in the 1950's its patronage declined. The Tivoli Theater was forced to close in 1961.

In 1963, a grant from Chattanooga's Benwood Foundation allowed the Tivoli Theater to reopen after partial renovation. The Tivoli Theater was placed on the National Register of Historic Places in 1974, and was purchased by the City in 1976 for \$300,000. In 1979, the Chattanooga Arts Council received a \$25,000 grant from the Lyndhurst Foundation for a feasibility study on restoring the Tivoli Theater. In 1986, the State of Tennessee made \$3.5 million available for renovation. A private campaign raised another \$3.2 million, and the City contributed \$300,000.





After a two-year renovation, the Tivoli Theater had a successful reopening on March 29, 1989. In addition to a complete cosmetic overhaul, the Tivoli had a new state-of-the-art sound and lighting system, a hydraulic lift orchestra pit, and new “green room” and rehearsal facilities. Stage depth was increased by over 14 feet to meet the requirements of today’s concerts and theatrical tours. Currently, the Tivoli has 1,762 seats with a square footage of approximately 40,000.

**Programming.** In FY2002-03, the Tivoli Theater programming consisted of 119 events, of which there were 13 Broadway shows, 25 family shows, 12 concerts, 14 dance shows, 21 classic shows, three opera shows and 31 student shows. The following chart illustrates the Tivoli Theater’s attendance per event type from FY2000-01 to FY2002-03.

**TIVOLI THEATER  
NUMBER OF EVENTS  
FY2000-01 TO FY2002-03**

Event Type	FY2000-01	FY2001-02	FY2002-03	Total
Broadway	8	11	13	32
Family	27	26	25	78
Concerts	5	7	12	24
Dance	14	14	14	42
Classic	19	20	21	60
Opera	3	2	3	8
Student	23	32	31	86
<b>Sub-Total: Primary Presented Performing Arts Events</b>	<b>99</b>	<b>112</b>	<b>119</b>	<b>330</b>
Rentals	20	8	10	38
<b>Total Events</b>	<b>119</b>	<b>120</b>	<b>129</b>	<b>368</b>

The Tivoli Theater’s student, family and classical shows represent approximately 60.0% of its total shows from FY2000-01 to FY2002-03. The amount of the Tivoli Theater’s family and classic shows have remained relatively stable over the past three fiscal years, while the amount of its student shows have grown by 34.0% from 23 total events to 31 total events. As a result, the total amount of the Tivoli Theater’s events has increased by 8.0% over the past three years, from 119 events in FY2000-01 to 129 in FY2002-03.

The following chart illustrates the event trends of the Huntsville Concert Hall from FY2000-01 to FY2002-03.



**HUNTSVILLE CONCERT HALL  
NUMBER OF EVENTS  
FY2001-02 TO FY2002-03**

Events Type	FY2000-01	FY2001-02	FY2002-03	Total
Concert	1	9	11	21
Family Show		3	2	5
Comedy			2	2
Broadway	2	27	30	59
Dance	22	29	31	82
Symphony	19	17	13	49
Meeting, Conference		19	17	36
<b>Sub-Total: Primary Presented Performing Arts Events</b>	<b>44</b>	<b>104</b>	<b>106</b>	<b>387</b>

As demonstrated, the Huntsville Concert Hall derives the majority of its events from its Broadway and dance events, representing more than one-third of total events from FY2002-03. Compared to Huntsville, Birmingham has had similar event trends. As demonstrated by the following table, from FY2002-03 Birmingham's Broadway shows were a major component of total shows, at nearly one-third of total events.

**BIRMINGHAM CONCERT HALL  
NUMBER OF EVENTS  
FY2000-01 TO FY2002-03**

Event Type	FY2000-01	FY2001-02	FY2002-03	Total
In House	4	3	1	8
Sporting	1		2	3
Conventions w/Exhibits	7	12	4	23
School & Youth	1			1
Symphony	43	35	17	95
Ballet	23	20	31	74
Broadway Production	98	29	41	168
Popular Concert	8	20	37	65
Dramatic Production	3	1	7	11
Recital	12	14	15	41
Religious	4	6	16	26
Fashion Show	2	1	1	4
Graduation Ceremony	1	5	6	12
Pageant		1	1	2
Consumer Show			2	2
Banquets and Receptions			1	1
General Business Meeting		7	3	10
Technical Seminars		4	3	7
Children's Theater			4	4
Motivational			1	1



Event Type	FY2000-01	FY2001-02	FY2002-03	Total
Circus			1	1
Musical				
In House	4	3	1	8
Sporting	1		2	3
Conventions w/Exhibits	7	12	4	23
<b>Total</b>	<b>219</b>	<b>173</b>	<b>201</b>	<b>593</b>

The following chart compares the trends for total number of events of the Tivoli Theater, Birmingham Concert Hall, Huntsville Concert Hall, Evansville Victory Theater, and New Haven Shubert Theater.

**TIVOLI THEATER  
COMPARISON OF EVENTS  
FY2000-01 TO FY2002-03**

Venue	FY2000-01	FY2001-02	FY2002-03	Total
Concert Hall (Birmingham, AL)	207	158	194	559
Victory Theater (Evansville, IN)	151	148	151	450
Shubert Theater (New Haven, CT)	140	104	146	390
<b>Tivoli Theater</b>	<b>119</b>	<b>120</b>	<b>129</b>	<b>368</b>
Huntsville Concert Hall (Huntsville, AL)	88	104	106	298

Among comparable facilities, the Tivoli Theater ranked at the lower end in total number of events, with 368, 34.0% less than Birmingham's total of 559, 18.0% less than the Evansville's total of 450 events, 6.0% less than New Haven and 19.0% more than the Huntsville's total of 298 events.

**Attendance.** The following chart demonstrates the attendance of the Tivoli Theater for FY2002-03, FY2001-02 and FY2000-01. As demonstrated by the chart, in line with the Tivoli Theater's increase in total amount of events, its total attendance has increased as well. In FY2002-03, total attendance for the Tivoli Theater was 137,341, representing an increase of 7.0% over the past three years. The following table illustrates a breakdown of total attendance over the past three years by event type.



**TIVOLI THEATER  
ATTENDANCE  
FY2000-01 TO FY2002-03**

Event Type	FY2000-01	FY2001-02	FY2002-03	Total
Comedy	635	1,018		1,653
Concerts	48,220	56,058	71,670	175,948
Religious	4,450	5,100	2,275	11,825
Broadway	20,813	24,522	19,456	64,791
Other*	53,664	46,599	43,940	144,203
<b>Total Events</b>	<b>127,782</b>	<b>133,297</b>	<b>137,341</b>	<b>398,420</b>

*\*Includes Dance, Student, and Classic Shows, which represent a small portion of total Tivoli Attendance*

As demonstrated by the previous table, the Tivoli Theater derives the majority of its attendance from its concerts, representing 52.0% of total attendance in FY2002-03. Compared to the Tivoli Theater, the Huntsville Concert Hall and Birmingham Concert Hall have had contrasting attendance trends. The following chart illustrates the Birmingham and Huntsville Concert Hall attendance trends by show type over the past three fiscal years:

**HUNTSVILLE CONCERT HALL ATTENDANCE  
FY2000-01 TO FY2002-03**

Event Type	FY2000-01	FY2001-02	FY2002-03	Total
Concert	13,563	10,819	19,254	43,636
Family Show		6,656	5,952	12,608
Comedy	1,850		2,109	3,959
Performing Arts - Theatre	36,676	41,473	51,531	129,680
Performing Arts - Dance	44,693	37,262	35,537	117,492
Performing Arts – Symphony	21,292	17,600	15,596	54,488
Meeting, Conference	13,900	13,475	14,098	41,473
<b>Total</b>	<b>131,974</b>	<b>127,285</b>	<b>144,077</b>	<b>403,336</b>

While the Tivoli Theater derives the majority of its attendance from its concerts, over the past three years, Huntsville has derived the majority of its attendance from Broadway productions. For Huntsville, from FY2000-01 to FY2002-03, attendance for Broadway shows totaled 247,172 out of a total of 403,336, representing 61.0 percent.

Additionally, as demonstrated by the following chart, for Birmingham attendance for Broadway shows totaled 246,568 out of 644,962 from FY2000-01 to FY2002-03, representing 38.0 percent.



**BIRMINGHAM CONCERT HALL EVENT  
FY2000-01 TO FY2002-03**

	<b>FY2000-01</b>	<b>FY2001-02</b>	<b>FY2002-03</b>	<b>Total</b>
In House		401	2,100	2,501
Sporting	12,000		2,750	14,750
Conventions w/Exhibits	3,749	11,028	6,100	20,877
School & Youth	3,000			3,000
Symphony	29,967	26,369	10,034	66,370
Ballet	9,392	16,316	15,346	41,054
Broadway Production	95,826	66,916	83,826	246,568
Popular Concert	14,528	22,078	58,013	94,619
Dramatic Production	2,300	2,611	10,087	14,998
Recital	2,800	10,650	9,772	23,222
Religious	1,700	13,000	18,400	33,100
Fashion Show	5,000	2,000	1,200	8,200
Graduation Ceremony	3,000	11,260	10,561	24,821
Pageant		1,000	300	1,300
Consumer Show			23,217	23,217
Banquets and Receptions			100	100
General Business Meeting		10,235	7,500	17,735
Technical Seminars		15	15	30
Children's Theater			3,000	3,000
Motivational			2,500	2,500
Circus			3,000	3,000
Musical				
<b>Total</b>	<b>183,262</b>	<b>193,879</b>	<b>267,821</b>	<b>644,962</b>

The following chart compares the total attendance of the Tivoli Theater to the Birmingham Concert Hall, Evansville Victory Theater, Huntsville Concert Hall and New Haven Shubert Theater from FY2000-01 to FY2002-03.

**TIVOLI THEATER  
COMPARISON OF ATTENDANCE  
FY2000-01 TO FY2002-03**

<b>Venue</b>	<b>FY2000-01</b>	<b>FY2001-02</b>	<b>FY2002-03</b>	<b>Total</b>
Concert Hall (Birmingham, AL)	183,262	193,879	267,821	644,962
Victory Theater (Evansville, IN)	172,321	168,898	170,200	511,419
Concert Hall (Huntsville, AL)	131,974	127,285	144,077	403,336
<b>Tivoli Theater</b>	<b>127,782</b>	<b>133,297</b>	<b>137,300</b>	<b>398,420</b>
Shubert Theater (New Haven, CT)	135,000	88,000	139,000	326,000

As demonstrated by the above chart, from FY2000-01 to FY2002-03, the attendance of the Tivoli Theater was the lowest compared to Evansville, Huntsville and New Haven. The Tivoli Theater's total attendance during this three-year period was 398,420, 38.0% less than the Birmingham's attendance of 644,962, 22.0% less than Evansville total



attendance of 511,419, and 1.0% less than Huntsville's attendance of 403,336. Only New Haven had less than the Tivoli Theater in total attendance, with 326,000<sup>3</sup> (18.0% lower).

**Events.** Like the Memorial Auditorium, PFM has analyzed the type of shows featured at each of the venues comparable to the Tivoli Theater. The booking policy at the Tivoli Theater focuses on concerts and mainstream shows. On the contrary, the Huntsville Concert Hall, Birmingham Concert Hall and New Haven Shubert Theater focus on booking large first run Broadway shows.

PFM contacted facility management organizations to rate the Tivoli Theater's most highly attended events either "Low", "Medium" or "High." The following are the results of this inquiry.

#### **TIVOLI THEATER PERCEPTION OF EVENTS FY2002-03**

<b>Name of Event</b>	<b># of Events</b>	<b>Average Attendance per Event</b>	<b>% Capacity</b>	<b>Rated Ability to Boost Attendance and Profit</b>
Trail of Tears	2	1,631	93.0%	Medium
Six Strings at Sunset	1	1,710	97.0%	Medium
Nutcracker Schools	3	1,700	96.0%	High
The Nutcracker	3	1,526	87.0%	High
Swing	1	1,663	94.0%	Medium
John Prine in Concert	1	1,742	99.0%	High
Joseph and His Amazing Technicolor Dreamcoat	1	1,750	99.0%	High
Jim Brickman	2	1,039	40.0%	High

The majority of the Tivoli Theater's best selling events were rated "High", suggesting that these shows are viewed as first run shows, capable of generating a significant amount of revenues and having a decent level of national appeal. However, like the Memorial Auditorium, the Tivoli Theater's highest draws are booked for periods of only one to two days.

Based on the following table, the Tivoli Theater is on par with Evansville, Huntsville and New Haven in terms of the top shows booked and the number of average number of days top shows perform per visit.

<sup>3</sup> In early FY2001-02, the Columbus Association of the Performing Arts ("CAPA"), a private firm, was selected through a Request for Proposals process to manage the Shubert Theater. CAPA was only given a month to set the programming and establish a marketing and ticket sales strategy. As a result, the Shubert Theater had a drop in attendance for this year.



## SHOW PERCEPTION ANALYSIS COMPARISON OF FEATURED EVENTS

Tivoli Theater	Rated Ability to Boost Attendance and Profit	Concert Hall	Rated Ability to Boost Attendance and Profit	Victory Theater	Rated Ability to Boost Attendance and Profit	Shubert Theater	Rated Ability to Boost Attendance and Profit
Trail of Tears	Medium	Miss Saigon	High	Coppelia	High	Bear and the Big Blue House	High
John Prine	High	Jesus Christ Superstar	High	Diary of Anne Frank	High	Annie	High
Joseph and His Amazing Technicolor Dreamcoat	High	Cats	High	Charlotte's Web	High	Cats	High
Six Strings at Sunset	Medium	Grease	High	Jim Brickman with Donnie Osmond	High	Alison Krauss	High
Nutcracker Schools	High	Les Miserables	High	Nutcracker	High	Sound of Music	High
Jim Brickman	High	Bill Cosby	High	Pocohontas	High	Music Man	High

Like the Tivoli Theater, the top selling shows of Huntsville, Evansville and New Haven are first run Broadway shows and concerts. Huntsville, Evansville and New Haven report that these venues also feature these events for periods of one to two days rather than five to ten days. Only New Haven features its Broadway shows for an average period of six to eight days. Shubert Theater management believes that its leverage as a contractor makes this possible.

Additionally, the Tivoli Theater's average capacity for each of its best selling evens is approximately 79.0%, which is comparable to the capacity of the Concert Hall, Victory Theater and Shubert Theater. Each of these venues has a capacity for its best selling events in the range of 75.0% to 100.0 percent.

**Fees.** As previously noted, there were 10 rentals at the Tivoli Theater in FY2002-03, representing a 50.0% drop in its rentals from FY2000-01 to FY2002-03. Principal rental tenants include the Chattanooga Symphony Orchestra, schools and religious organizations. Rental fees range from \$1,200 (resident non-profit, Monday to Thursday) to \$1,650 (For Profit, Monday to Thursday). The following tables include a schedule for the Tivoli Theater and Shubert Theater.



As demonstrated by the tables the Tivoli Theater's fees are in line with those of the Shubert Theater.

### TIVOLI THEATER FEE SCHEDULE

Fee	Rate
Move-in and Rehearsal	50.0% of the performance base rate pay
Resident Non-Profit	\$1,100
Non-Profit	\$1,200
For Profit	\$1,300 vs. 10.0% (no cap)
Ticket Printing	\$.15 per ticket printed
Credit Card Proc. Fee	4.0%
Stamps-Mail Orders	\$.37 each
Box Office Fees	\$35 per day \$20 per performance
Taxes (State)	9.5%
Business License (City & County)	\$20 each
Stage Employees	\$14 per hour (4 hr. min.) Plus 12.0% administrative fee
House Payroll (Ushers)	\$640
Security	\$18 per hr. (4 hr. min)
Liability Insurance	\$250 min. per performance

For non-profit organizations, the Tivoli Theater charges a fee of \$1,100 to residents and \$1,200 non-residents. As demonstrated by the following chart, this is in line with fees charged at the Shubert Theater to non-profit organizations. However, the Tivoli Theater is less aggressive than the Shubert Theater in for profit rental fees charging \$1,300 compared to the Shubert's \$2,000.

### SHUBERT THEATER FEE SCHEDULE

Fee	Rate
Fee: For-Profit Events	\$2,000 or 10% gross
Fee: Non-Fore Profit	\$1,100
Front-Of-House Services (e.g. Ushers)	\$1,450
Stage Sound per Performance	\$250
Stage Lights per Performance	\$250
Utilities per Day	\$350
Ticket Set-up	\$200
Per-Ticket Restoration Fee	\$1.50
Credit Card Handling	5.0% window; 7.0% phone sales
IATSE Stage Crew	Actual Charges
Conference Rate	\$750-\$2,200 per Day plus Crew





### **III. ENTERTAINMENT ALTERNATIVES**

The Tivoli Theater and Memorial Auditorium have the advantage of being the only theater-type venues in the area. Management feels that the Civic Facilities have no direct competitor in the Chattanooga area. However, the Chattanooga region also supports mainstream sports and entertainment venues, which are summarized below.

- McKenzie Area, Chattanooga, TN: This facility, owned by the University of Tennessee at Chattanooga, holds approximately 10,000 people and features larger arena events such as UTC college basketball, the rodeo, graduations, monster trucks, and World Wrestling Entertainment. From its establishment in the 1980s, it was tacitly agreed upon by Civic Facility and McKenzie Arena management that the Arena would not seek out 4,000 seat shows that would attract Civic Facility patrons.
- Trade Center, Chattanooga, TN: This facility has 312,000 square feet, which includes 100,000 square feet of exhibit space, 21 meeting rooms and six ballrooms. The Trade Center features larger events, such as automotive vehicle shows and other expositions and some mainstream concerts that have competed to attract Civic Facility staff.
- Chattanooga Theatre Center. This facility has 40,000 square feet and hosts more than fifteen productions per year seen by audiences of more than 50,000. Offerings range from Beginning Acting, Theatre Dance, and Improvisation to Professional Clowning, Singing for Actors, Scene Analysis, and Stage Managing.

The Theatre Center also provides drama and dance classes, workshops, and summer camps for students of theatre arts from kindergarten through adult.

- UTC Fine Arts Center. This facility is a 300-seat theatre with state-of-the-art lighting and sound equipment housing the Chattanooga State Repertory Theatre, and Actors Equity Association (AEA) guest-artist-theatre which presents two main-stage productions per year.

The Fine Arts Center features works of Music, Theatre and Speech, and the Visual Arts in three main venues: The Roland W. Hayes Concert Hall, The Dorothy Hackett Ward Theatre, and The George Ayers Cress Gallery of Art.

The Hayes presents over 200 performances each year through the Patten Performances, the Cadek Department of Music, and other University and community events.

The University Theatre Company produces four to five classic and modern plays per year in the Ward Theatre. The Art Department presents student and guest showings in the Cress Gallery.



- Other Entertainment Alternatives. Apart from the Tivoli Theater, Memorial Auditorium and McKenzie Area, Chattanoogaans are within two hours of Atlanta, Huntsville, Knoxville, Asheville, Spartanburg and Memphis. Each of these facilities offers comparable venues to Chattanooga and similar programming.



#### **IV. OVERVIEW OF CIVIC FACILITIES FINANCES**

As previously noted, the Civic Facilities received a General Fund subsidy of nearly \$600,000 in FY2002-03. From FY1994-95 to FY2002-03, the Civic Facilities' revenues have remained relatively flat — growing at an average annual rate of 1.7% — while expenses have increased by 4.5 percent. The following chart illustrates the Civic Facilities' revenue and expenses from 1994-95 to 2002-03.



**SUMMARY OF CIVIC FACILITY FINANCES  
FY1994-95 TO FY2002-03**

	FY1994-95	FY1995-96	FY1996-97	FY1997-98	FY1998-99	FY1999-00	FY2000-01	FY2001-02	FY2002-03
<b>REVENUES</b>									
Meml Aud Credit Card Fees							\$23,515	\$56,777	\$25,668
Meml Aud Rents	\$206,048	\$228,857	\$151,158	\$146,225	\$204,953	\$226,663	246,808	216,859	196,184
Meml Aud Concessions	43,416	51,592	36,757	41,441	57,460	46,270	81,899	49,266	30,342
Meml Aud Ticket Stock							1,877	1,897	1,084
Meml Aud Postage							2,403	1,931	1,387
Meml Aud Box Office			45,675	63,922	112,277	84,009	63,749	106,412	78,103
Meml Aud Overtime Reimb	140	3,413	7,215	6,326	7,725	45,352	18,351	11,820	10,331
Tivoli Credit Card Fees							9,256	11,021	12,678
Tivoli Rents	149,070	111,035	109,002	128,482	108,901	167,523	148,113	135,695	181,743
Tivoli Concessions	17,156	20,157	22,159	17,516	19,237	20,563	20,416	22,223	21,755
Tivoli Ticket Stock							456	408	3,682
Tivoli Postage							404	414	648
Tivoli Box Office			28,490	15,276	28,836	32,745	28,950	32,465	37,663
Tivoli Overtime Reimb				5,914	6,931	11,705	11,101	5,204	9,362
Over/Under Civic Facilities					(344)	(1,254)	(648)	(90)	(200)
<b>Total</b>	<b>\$415,830</b>	<b>\$415,054</b>	<b>\$400,456</b>	<b>\$425,104</b>	<b>\$545,976</b>	<b>\$633,577</b>	<b>\$656,650</b>	<b>\$652,300</b>	<b>\$610,429</b>
<b>EXPENSES</b>									
Memorial Auditorium	\$516,566	\$509,141	\$540,030	\$538,300	\$314,553	\$384,689	\$392,425	\$425,433	\$400,058
Civic Fac Concessions	64,538	77,373	78,253	65,828	52,435	37,312	51,323	40,224	33,182
Tivoli Theatre	277,802	338,089	367,512	361,348	246,616	274,143	276,687	291,119	325,460
Civic Fac Administration					370,965	380,640	348,272	459,654	445,403
<b>Total</b>	<b>\$858,906</b>	<b>\$924,603</b>	<b>\$985,795</b>	<b>\$965,476</b>	<b>\$984,569</b>	<b>\$1,076,784</b>	<b>\$1,068,707</b>	<b>\$1,216,431</b>	<b>\$1,204,102</b>
<b>Net Revenues/Subsidy<sup>4</sup></b>	<b>(\$443,076)</b>	<b>(\$509,549)</b>	<b>(\$585,339)</b>	<b>(\$540,372)</b>	<b>(\$438,593)</b>	<b>(\$443,207)</b>	<b>(\$412,057)</b>	<b>(\$564,131)</b>	<b>(\$593,674)</b>

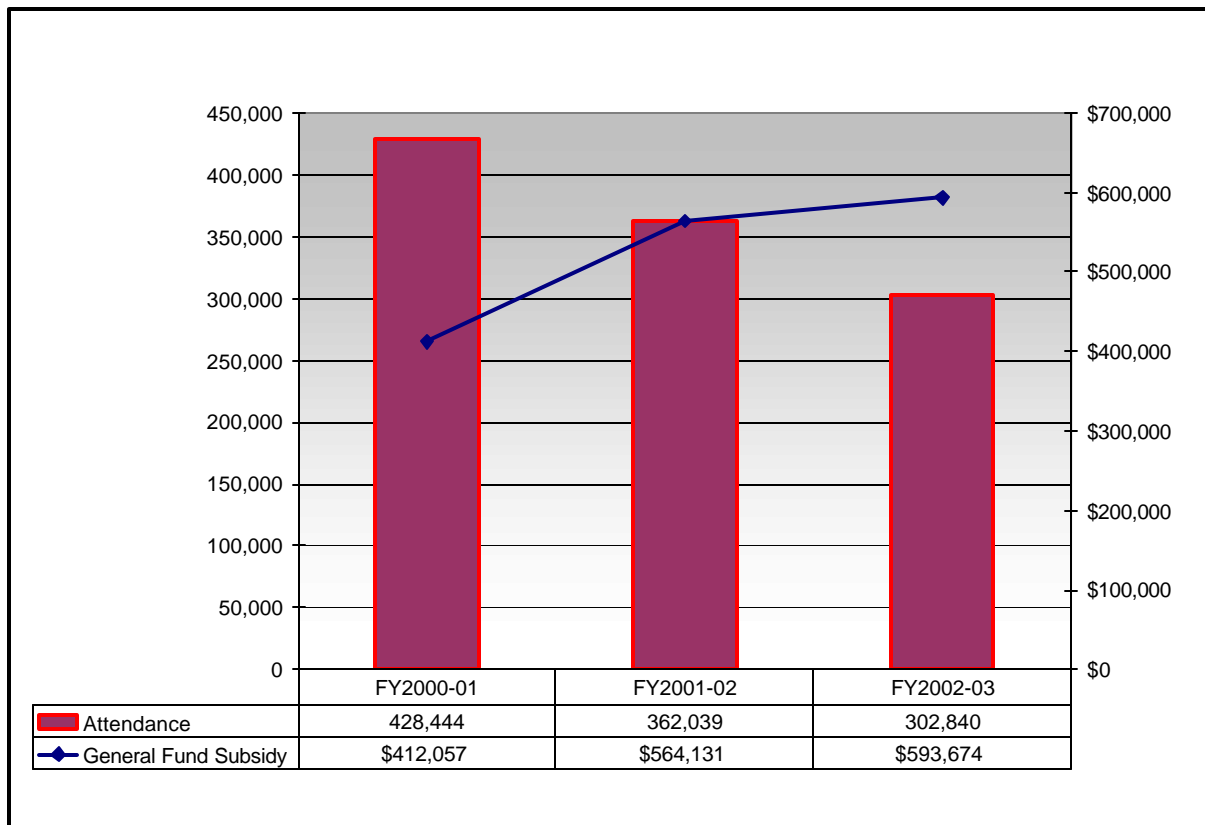
<sup>4</sup> Periodic fluctuations in General Fund subsidy (e.g. 1997-98 to FY1998-99) of the Civic Facilities are attributed to loss or addition of large Memorial Auditorium tenants.



As demonstrated by the previous chart, the City has subsidized the Civic Facilities by \$5.1 million from FY1994-95 to FY2002-03. Since the growth of Civic Facilities' expenses has outpaced its revenue growth from FY1994-95 to FY2002-03, the City's General Fund subsidy has grown by an average of 4.75% each year during this period.

As demonstrated by the following chart, over the past three years, the General Fund subsidy of the Civic Facilities has increased by 44.0% from \$412,057 to \$593,674 while total attendance has decreased by 29.0% from 428,444 to 302,840.

**CIVIC FACILITIES ATTENDANCE VS GENERAL FUND SUBSIDY  
FY2000-01 TO FY2002-03**



The following chart compares the civic facility deficits subsidy for comparable cities from FY2000-01 to FY2002-03:

**COMPARISON OF CIVIC FACILITY DEFICITS  
FY2000-01 TO FY2002-03**

<b>Fiscal Year</b>	<b>Birmingham, AL<sup>5</sup></b>	<b>Huntsville, AL<sup>6</sup></b>	<b>Saginaw, MI</b>	<b>Chattanooga, TN</b>	<b>Evansville, IN</b>	<b>New Haven, CT</b>	<b>Ames, IA</b>
FY2000-01	(\$1,146,795)	(\$871,036)	(\$750,000)	(\$412,057)	(\$348,000)	(\$250,000)	\$15,476
FY2001-02	(1,221,127)	(879,438)	(667,000)	(564,131)	(\$365,000)	\$30,000*	\$139,013
FY2002-03	(1,068,546)	(1,081,640)	(455,101)*	(593,674)	(\$305,000)	\$20,000	\$215,732
<b>Totals</b>	<b>(\$3,436,468)</b>	<b>(\$2,832,114)</b>	<b>(\$1,872,101)</b>	<b>(\$1,596,862)</b>	<b>(\$1,018,000)</b>	<b>(\$200,000)</b>	<b>\$370,221</b>

\*This marked the first full year that a contractor had assumed full responsibility for the operation of the Saginaw Event Center.

As illustrated by the chart amount, Chattanooga's General Fund subsidy for its Civic Facilities falls in the middle relative to similar secondary market venues (i.e., fourth highest in total subsidy received). Birmingham has by far the largest subsidy of the comparable facilities. At a total subsidy of \$3.4 million from FY2000-01 to FY2002-03, Birmingham's subsidy during this period was approximately \$600,000 greater than Huntsville's subsidy, \$1.5 million greater than Saginaw's subsidy, and \$1.8 million greater than the City's subsidy, \$2.3 million greater than the Evansville's subsidy than New Haven's subsidy.

<sup>5</sup> Includes both Boutwell Auditorium and Birmingham Jefferson Convention Center

<sup>6</sup> Estimated for Concert Hall and Auditorium at the Von Braun Center



## **V. CIVIC FACILITIES EXPENSES**

As mentioned, Civic Facilities' expenses have outpaced revenues by an average of \$600,000 over the past three years. The following table summarizes the City's expenditure trends over the past five years.

### **CIVIC FACILITIES SUMMARY OF EXPENSES FY1997-98 TO FY2002-03**

<b>Category</b>	<b>FY 1997-98</b>	<b>FY 1998-99</b>	<b>FY 1999-00</b>	<b>FY 2000-01</b>	<b>FY 2001-02</b>	<b>FY 2002-03</b>
Salaries & Wages	\$435,487	\$463,134	\$474,625	\$486,086	\$556,331	\$545,106
Fringe Benefits	55,277	52,618	50,247	37,800	105,428	124,842
<b>Personal Services</b>	<b>490,764</b>	<b>515,752</b>	<b>524,872</b>	<b>523,887</b>	<b>661,759</b>	<b>669,948</b>
Purchased Services	\$366,721	\$383,827	\$473,367	\$454,723	\$480,062	\$466,529
Materials & Supplies	25,407	26,611	32,245	28,675	24,027	25,349
Travel Expense	4,884	3,341	3,099	1,433	1,485	982
Vehicle Operating	5,113	2,106	3,996	3,073	3,269	3,646
Insurance, Claims	616	396	396	3,496	3,569	2,191
Inventory Supplies					10	
Capital Outlay & Fixed Assets	\$3,783	\$3,141	\$2,498	\$941	\$721	\$1,511
Gov't Charges, Taxes, Etc.	2,360	(3,041)	(1,001)	1,155	1,305	765
<b>Operations</b>	<b>408,884</b>	<b>416,381</b>	<b>514,600</b>	<b>493,497</b>	<b>514,448</b>	<b>500,973</b>
<b>Total</b>	<b>\$899,648</b>	<b>\$932,134</b>	<b>\$1,039,472</b>	<b>\$1,017,384</b>	<b>\$1,176,207</b>	<b>\$1,170,921</b>

As detailed by the above chart, the primary drivers of the Civic Facilities' expenses are its personnel expenses (salaries and wages and fringe benefits) and its purchased services, which include items such as temporary employees and telephone and utility bills.

As detailed by the following chart, an analysis of FY2002-03 expenses for comparable cities demonstrates that each derive the majority of their expenses from personnel, ranging from Chattanooga's \$669,948 (57.0%) in expenses to Huntsville's \$890,640 in expenses (49.0%). Additionally, each of the cities derive a significant portion of their revenues from its purchases service which includes temporary employee services and outsourced security, the City derives an additional \$466,529 in purchased services which includes temporary employees and contracted security. Comparatively, for purchases services, Huntsville spent \$436,285, Asheville spent \$152,679 and Charlotte spend \$90,415.



**COMPARISON OF CIVIC FACILITY EXPENSES  
FY2002-03**

<b>Category</b>	<b>Huntsville<sup>7</sup></b>	<b>Asheville</b>	<b>Charlotte</b>	<b>New Orleans</b>	<b>Chattanooga</b>	<b>Birmingham<sup>8</sup></b>
Personal Services (including Fringe and Benefits)	\$890,640	\$681,542	\$1,032,307	\$800,000	<b>\$669,948</b>	\$738,763
Purchased Services	436,285	152,679	90,415		<b>466,529</b>	
Utilities, Materials & Supplies	60,871	617,242	185,807	275,000	<b>25,349</b>	240,929
Travel Expense			4,767		<b>982</b>	
Vehicle Operating					<b>3,646</b>	
Insurance, Claims	118,049		65,998		<b>2,191</b>	
Advertising Expense	5,072		9,000		<b>10,000</b>	
Promotional Expense	12,720					
Inventory Supplies	275,438		35,057			
Dues and Subscription	10,290		5,870			
Capital Outlay & Fixed Assets		123,042	116,002	54,000	<b>1,511</b>	
Gov't Charges, Taxes, Etc.					<b>765</b>	
Repairs and Maintenance		145,384	81,163	236,000		16,860
Ticket Office Operations		51,798	55,350		<b>500,973</b>	
Depreciation		(1,329)				
Interfund Charges		5,792				
<b>Total</b>	<b>\$1,809,365</b>	<b>\$1,776,151</b>	<b>\$1,681,735</b>	<b>\$1,365,000</b>	<b>\$1,170,931</b>	<b>\$996,552</b>

<sup>7</sup> Estimated for Concert Hall and Auditorium at the Von Braun Center

<sup>8</sup> Included Boutwell Auditorium only





**Personnel Expenses.** The following chart details total personnel expenses for the Civic Facilities from FY1997-98 to FY2002-03:

**CIVIC FACILITIES PERSONNEL EXPENSES  
FY1996-97 TO FY2002-03**

Category	FY 1996-97	FY 1997-98	FY 1998-99	FY 1999-00	FY 2000-01	FY 2001-02	FY 2002-03
Regular Employment	\$466,112	\$387,776	\$397,751	\$401,658	\$409,456	\$457,086	\$468,067
Temp Staffing	515	40	35		84		287
Overtime	40,624	38,400	58,945	58,509	68,641	72,826	43,612
Comp Time	2,186		18	33	737		
Awards	141	118	35				
Personal Leave	17,769	50,350	25,936	29,387	26,672	42,900	34,887
Personal Leave Buybacks	2,393	132	23	28	683		9,930
Auto Allowances	2,441	552	29	94	1,171		
Medicare	32,253	29,209	29,231	29,644	30,407	34,485	33,273
General Pension	7,542	6,831	6,836	6,933	7,111	8,065	7,782
Hospitalization						62,259	73,162
Life Insurance	1,601	1,596	1,304	1,049	167	1,242	1,337
Long Term Disability		191	455	476	460	594	816
<b>Total</b>	<b>\$603,837</b>	<b>\$535,721</b>	<b>\$536,480</b>	<b>\$540,840</b>	<b>\$542,559</b>	<b>\$679,500</b>	<b>\$682,519</b>

According the previous chart, personnel expenses in FY2002-03 represent an increase of 4.62% compared to FY1996-97. However, during this period, personnel expenses have fluctuated, growing to \$572,812 by FY2001-02, and then falling to \$556,783 the following fiscal year. Over the past three years, salaries and wages have grown by 14.3%, from \$401,658 to \$468,067. A large component of the Civic Facilities' personnel expenses apart from salaries is overtime. While FY2002-03 overtime expenses had fallen by approximately 25.0% compared to FY1999-00, overtime in FY2002-03 still represented 7.32% of total personnel expenses. The following chart analyzes FY2002-03 personnel expenses for Chattanooga, Birmingham, Asheville, Huntsville and Charlotte.



**COMPARISON OF CIVIC FACILITY PERSONNEL EXPENSES  
FY2002-03**

<b>Category</b>	<b>Charlotte</b>	<b>Huntsville<sup>9</sup></b>	<b>Birmingham<sup>10</sup></b>	<b>Chattanooga</b>	<b>Asheville</b>
Regular Employment	\$888,135	\$648,881	\$561,280	<b>\$468,067</b>	\$400,818
Temp Staffing	82,258		434	<b>287</b>	107
Overtime			24,257	<b>43,612</b>	9,213
Comp Time		23,802			32,123
FICA/Medicare		79,262	44,819	<b>41,055</b>	29,904
Pension Contributions		88,572	30,573	<b>9,366</b>	20,453
Health Insurance	144,172	50,117	64,477		69,176
Hospitalization				<b>73,162</b>	
Life Insurance	65,998		5,423	<b>1,337</b>	
Awards			7,500		15,484
Long Term Disability				<b>816</b>	
Personal Leave				<b>34,887</b>	
Personal Leave Buybacks				<b>9,930</b>	
Auto Allowances					
<b>Total</b>	<b>\$1,180,563</b>	<b>\$890,634</b>	<b>\$738,763</b>	<b>\$682,519</b>	<b>\$577,278</b>

As demonstrated by the above chart, Chattanooga is the fourth highest in personnel expenses. The primary drivers of the City's personnel expenses are employee salaries, at 84.0% of total personnel expenses. Additionally, the City's drivers of overtime expenses are overtime and personal expenses at 43,612 (8.0%) and \$34,887 (6.0%) of overall personnel expenses, respectively. Comparatively, in Charlotte employee salaries are \$888,135 (75.0% of total personnel expenses); in Huntsville employee salaries are 648,881 (73.0% of total personnel expenses); in Birmingham employee salaries are \$561,280 (76.0% of total personnel expenses); and in Asheville employee salaries are 400,818 (69.0% of total personnel expenses).

Additionally, in each comparable municipality employee benefits (health and life insurance, pension contributions, and personal leave) also make up a considerable portion of overall personnel expenses. For the Chattanooga's employee benefits were \$170,553 (25% of overall personnel expenses); for Huntsville total employee benefits were the highest among comparable cities at \$241,759 (27.0% of overall expenses); for Charlotte total employee benefits were \$210,170; for Birmingham total employee benefits were \$152,792 (21.0% of overall expenses); and for Asheville total employee benefits were \$167,140 (29.0% of overall expenses).

<sup>9</sup> Estimated for Concert Hall and Auditorium at the Von Braun Center

<sup>10</sup> Includes Boutwell Auditorium only



**Capital Improvement Plan (“CIP”).** As demonstrated by the following table, the Civic Facilities anticipates that it will need to fund \$200,000 in one-time FY2003-04 capital projects out of the General Fund.<sup>11</sup>

**CHATTANOOGA CIVIC FACILITIES CIP  
FY2003-04**

<b>Project</b>
Painting of both facilities
Curtain and tile repairs
Refinishing Memorial Auditorium stage
<b>Total Cost: \$200,000</b>

Upon completion of these upgrades, Chattanooga will have satisfied its capital improvement requirements through FY2005-06. The following charts illustrate the CIP of Evansville’s Victory Theater and the Pensacola Civic Center:

**EVANSVILLE AUDITORIUM CIP  
FY2003-04 TO FY2007-08**

<b>Project</b>	<b>FY2003-04</b>	<b>FY2004-05</b>	<b>FY2005-06</b>	<b>FY2007-08</b>
Painting Complete Interior	\$0	\$150,000	\$0	\$0
5th Floor Kitchen		125,000	\$125,000	
Electrical Service Monitor		65,000		
Power Factor Correction Capacitor		12,000		
Identification Sign			120,000	
Basket Strainer for Condenser Pumps		12,000		
Sound System Upgrade			100,000	
Rigging Inspection		10,000		
Door Repairs		20,000		
Banquet Tables & Chairs				20,000
Replace Carpet				200,000
Upgrade Stage Lighting				80,000
<b>Total Victory Theater CIP</b>	<b>\$0</b>	<b>\$394,000</b>	<b>\$345,000</b>	<b>\$300,000</b>

As demonstrated by the previous table, Evansville plans for \$300,000 to \$400,000 per year in capital improvements from FY2003-04 to FY2006-07.

Additionally, at the Pensacola Civic Center capital projects are completed as needed and as funds are available. Pensacola’s average annual CIP is about \$300,000. FY2003-04 capital improvements are detailed in the following chart.

<sup>11</sup> The Assessment has conservatively factored the FY2003-04 capital projects into projections for General Fund subsidy of the Civic Facilities.



**PENSACOLA CIVIC CENTER CIP  
FY2003-04**

Project
Parking lot repairs
Replacement of fixed arena seating
Office furniture
Copier
Truck
Plumbing upgrade
<b>Total Cost: \$300,000</b>

The previous charts demonstrate that Chattanooga's CIP is about 30.0% to 40.0% less than comparable facilities. Management notes that the Civic Facilities is in need of a kitchen, eating area and other concession-related upgrades. This will be discussed later in the report.

The Civic Facilities' marketing plan sets forth the various sales activities and marketing program to be undertaken (e.g. group sales), assigns responsibilities for each task, establishes criteria for measuring the effectiveness or success of each task, and provides a detailed budget and time frame for the completion of each activity.

**Marketing Budget.** The following chart details the FY2003-04 marketing budget of the Civic Facilities.



**CIVIC FACILITIES ADVERTISING BUDGET  
FY2002-03**

Issue	Deadline	Description	Size	Cost	Sub-Totals
Directory	4/6/2001	Tradeshow & Convention Center	1/3 pg	\$930	
Directory	7/6/2001	Audarena Stadium Guide	1/3 pg	\$1,090	
Directory	10/1/2001	Cavalcade of Acts & Attractions	1/3 pg	\$720	
		TOTAL:			\$2,740
<b>POLLSTAR</b>					
Directory		Concert Venue Directory (Fall)	1/4 pg	\$399	
Directory		Concert Venue Directory (Spring)	1/4 pg	\$399	
Directory		Talent Buyers Directory (Fall)	1/4 pg	\$399	
Directory		Talent Buyers Directory (Spring)	1/4 pg	\$399	
Dec. 2003		Year End Issue - Comp Ad	1/4 pg		
		POLLSTAR TOTAL:			\$1,596
<b>CONVENTION SOUTH</b>					
	7/2/02	Directory Listing	1/4 pg	\$981.75	
		CS TOTAL			\$981.75
<b>FACILITIES MAGAZINE</b>					
Nov/Dec	10/15/2002	Tennessee Spotlight Issue	1/4 pg	\$745	
		FACILITIES TOTAL:			\$745
<b>CARTA</b>					
	3/1/2003	Listing in Shuttle Map/Guide		\$150	
					\$150
<b>TOUR GUIDE</b>		Tour Guide Venue Book 2003	1/4 pg	\$282	
		TOUR GUIDE TOTAL			\$282
<b>CONVENTION AND VISITORS BUREAU</b>	10/2003	Listing in Group Leader Guide CVB Total		\$75	
					\$75
<b>UTC Campus Phone Directory</b>	2003-04	Listing in Group Leader Guide	1/8 pg	\$295	
<b>Total</b>				<b>\$6,569.75</b>	<b>\$6,569.75</b>



The Civic Facilities' marketing budget is minimal, as management relies on promoters to market their events. Annual marketing budgets have averaged \$10,000 over the past three year. An analysis of comparable facilities illustrates that the Civic Facilities' marketing budget is in fact in the range of comparable facilities:

**COMPARISON OF CIVIC FACILITIES ADVERTISING BUDGET  
FY2000-01 TO FY2002-03**

<b>Fiscal Year</b>	<b>Chattanooga</b>	<b>Pensacola</b>	<b>Evansville</b>	<b>Birmingham<sup>12</sup></b>
2000-01	<b>\$10,000</b>	\$32,000	\$10,000	\$3,000
2001-02	<b>\$10,000</b>	\$32,000	\$7,000	\$2,500
2002-03	<b>\$10,000</b>	\$12,000	\$5,000	\$2,500
<b>Total</b>	<b>\$30,000</b>	<b>\$76,000</b>	<b>\$22,000</b>	<b>\$8,000</b>

<sup>12</sup> Includes the Boutwell Auditorium only



## **VI. CIVIC FACILITIES REVENUES**

The chart on the following page details the trends of the Civic Facilities' revenues over the past seven fiscal years.

### **CIVIC FACILITIES REVENUES FY1997-98 TO FY2002-03**

<b>Item</b>	<b>FY1996-97</b>	<b>FY1997-98</b>	<b>FY1998-99</b>	<b>FY1999-00</b>	<b>FY2000-01</b>	<b>FY2001-02</b>	<b>FY2002-03</b>
Meml Aud Credit Card Fees							\$23,515
Meml Aud Rents	\$206,048	\$228,857	\$151,158	\$146,225	\$204,953	\$226,663	246,808
Meml Aud Concessions	43,416	51,592	36,757	41,441	57,460	46,270	81,899
Meml Aud Ticket Stock							1,877
Meml Aud Postage							2,403
Meml Aud Box Office			45,675	63,922	112,277	84,009	63,749
Meml Aud Overtime Reimb.	140	3,413	7,215	6,326	7,725	45,352	18,351
Tivoli Credit Card Fees							9,256
Tivoli Rents	149,070	111,035	109,002	128,482	108,901	167,523	148,113
Tivoli Concessions	17,156	20,157	22,159	17,516	19,237	20,563	20,416
Tivoli Ticket Stock							456
Tivoli Postage							404
Tivoli Box Office			28,490	15,276	28,836	32,745	28,950
Tivoli Overtime Reimb				5,914	6,931	11,705	11,101
Over/Under Civic Facilities					(344)	(1,254)	(648)
<b>Total</b>	<b>\$415,830</b>	<b>\$415,054</b>	<b>\$400,456</b>	<b>\$425,104</b>	<b>\$545,976</b>	<b>\$633,577</b>	<b>\$656,650</b>

From FY1997-98 to FY2002-03, the Civic Facilities' largest revenue source was its rental fees. In FY2002-03, the Civic Facilities' rental fee revenues were \$377,927. This represented 62.0% of all the revenues that were generated at the Civic Facilities. While this percentage has fluctuated over the past five years, the lowest percentage of overall revenues represented by rental fees has been 54.0% in FY2001-02.

In addition to its rental fees, the Civic Facilities' second largest revenue source has been its box office fees. These fees have accounted for as low as 14.0% (FY2000-01) to as high as 21.0% (FY2001-02) of total revenues.

While the City's rental and box office revenue have been strong, an analysis of comparable facilities implies that Chattanooga has not reached its full capacity from a concession revenue standpoint. The following table compares the FY2002-03 revenues of Chattanooga to several comparable facilities.



**COMPARISON OF CIVIC FACILITIES REVENUES  
FY1997-98 TO FY2002-03**

Category	Huntsville <sup>13</sup>	Charlotte	New Orleans	Asheville	Chattanooga	Birmingham <sup>14</sup>
Ticket Sales	\$415,935		\$900,000		\$32,771	
Rents	\$209,591	\$330,900	\$90,000	\$547,354	\$394,921	\$156,708
Concessions	\$1,087,386	\$128,514	\$125,000	\$387,237	\$102,315	\$95,281
Corporate Sponsorship	\$44,405	\$1,200	\$100,000			
Ticket Stock					\$2,333	
Event Services Income	\$24,578	\$670,125				
Materials and Services				\$170,604		
Postage					\$2,807	
Box Office	\$103,241	\$151,305			\$92,699	
Overtime Reimbursement				\$92,035	\$29,452	\$8,616
Parking		\$259,500	\$114,000			
Advertising Revenue	\$1,588					
Miscellaneous Revenue	\$8,413	\$22,790		\$41,695		
Over/Under					(\$648)	\$5,910
<b>Total</b>	<b>\$1,895,136</b>	<b>\$1,564,334</b>	<b>\$1,291,000</b>	<b>\$1,238,926</b>	<b>\$656,650</b>	<b>\$266,515</b>

As demonstrated by the above table, Huntsville has generated the most concessions revenue compared to other cities. At \$1.1 million, Huntsville's concessions total equals 58.0% of total revenues. Additionally Asheville reports that concessions revenue equaled \$387,237, or 31.0% of total expenses, and Birmingham reports that \$95,281 of its revenues come from concessions, or 36.0%. Compared to this, Chattanooga, New Orleans and Charlotte have realized considerably less concession revenue as a percentage of total revenues, averaging less than 20.0%.

**Preservation Fees.** In FY2002-03, Civic Facilities' management had the option of either increasing rental fees or charging an administrative fee on each ticket sold to generate additional revenue. Civic Facilities' management suggest that because the Tivoli Theater and Memorial Auditorium are within two hours of five cities that offer comparable venues and markets, even a modest increase in rental rates would deter many of the Civic Facilities' current tenants. Thus, charging an administrative surcharge was viewed as more viable alternative to generating additional revenues and securing tenants. Hence, the City Council imposed a preservation fee on each ticket sold for events held at either the Memorial Auditorium or the Tivoli Theater. The preservation

<sup>13</sup> Estimated for the Concert Hall and Auditorium at the Von Braun Center

<sup>14</sup> Includes Boutwell Auditorium only





fee, defined in Sec. 2-585 of the City Code, is an administrative fee that is used for the upkeep and other related expenses of the Civic Facilities. The following table outlines the current preservation fee rate structure:

\$ .25 on tickets costing \$0.00 - \$10.00
\$ .50 on tickets costing \$10.01 - \$20.00
\$ .75 on tickets costing \$20.01 and above

Management estimates that the average preservation fee on tickets sold will be \$.50. Therefore, based on historical trends, it can be assumed that the Civic Facilities will average attendance of approximately 300,000 patrons each year. As such, preservation fees will generate \$150,000 in revenue (300,000 estimated visitors each year \* \$.50 average preservation fee per ticket). This will significantly reduce the City's estimated General Fund subsidy of the Civic Facilities. The following chart includes revenue and expenditure projections with the addition of the preservation fee revenue.

**CIVIC FACILITIES  
PROJECTED GENERAL FUND SUBSIDY WITH PRESERVATION FEE<sup>15</sup>  
FY2003-04 TO FY2007-08**

Fiscal Year	Revenue (w/o Preservation Fees)	Estimated Annual Preservation Fee Revenues	Expenses	General Fund Subsidy w/ Preservation Fee
2003-04	\$439,578	\$150,000	(\$1,231,708)	(\$642,130)
2004-05	450,113	150,000	(1,050,908)	(450,795)
2005-06	450,893	150,000	(1,064,942)	(464,049)
2006-07	459,962	150,000	(1,073,736)	(463,774)
2007-08	470,076	150,000	(1,085,765)	(465,689)
<b>Total</b>	<b>\$2,270,622</b>	<b>\$750,000</b>	<b>(\$5,507,059)</b>	<b>(\$2,486,437)</b>

\*Includes \$200,000 in FY2003-04 for capital improvements

As detailed by the above chart, the Civic Facilities is expected to lower its General Fund subsidy by \$750,000 over the next five fiscal years through its preservation fee revenue.

A comparison of facilities demonstrates that Chattanooga is not unique in charging an administrative fee on tickets. In Asheville, Evansville and Pensacola, Ticketmaster—the contractor—receives an administrative fee on each of the tickets sold.

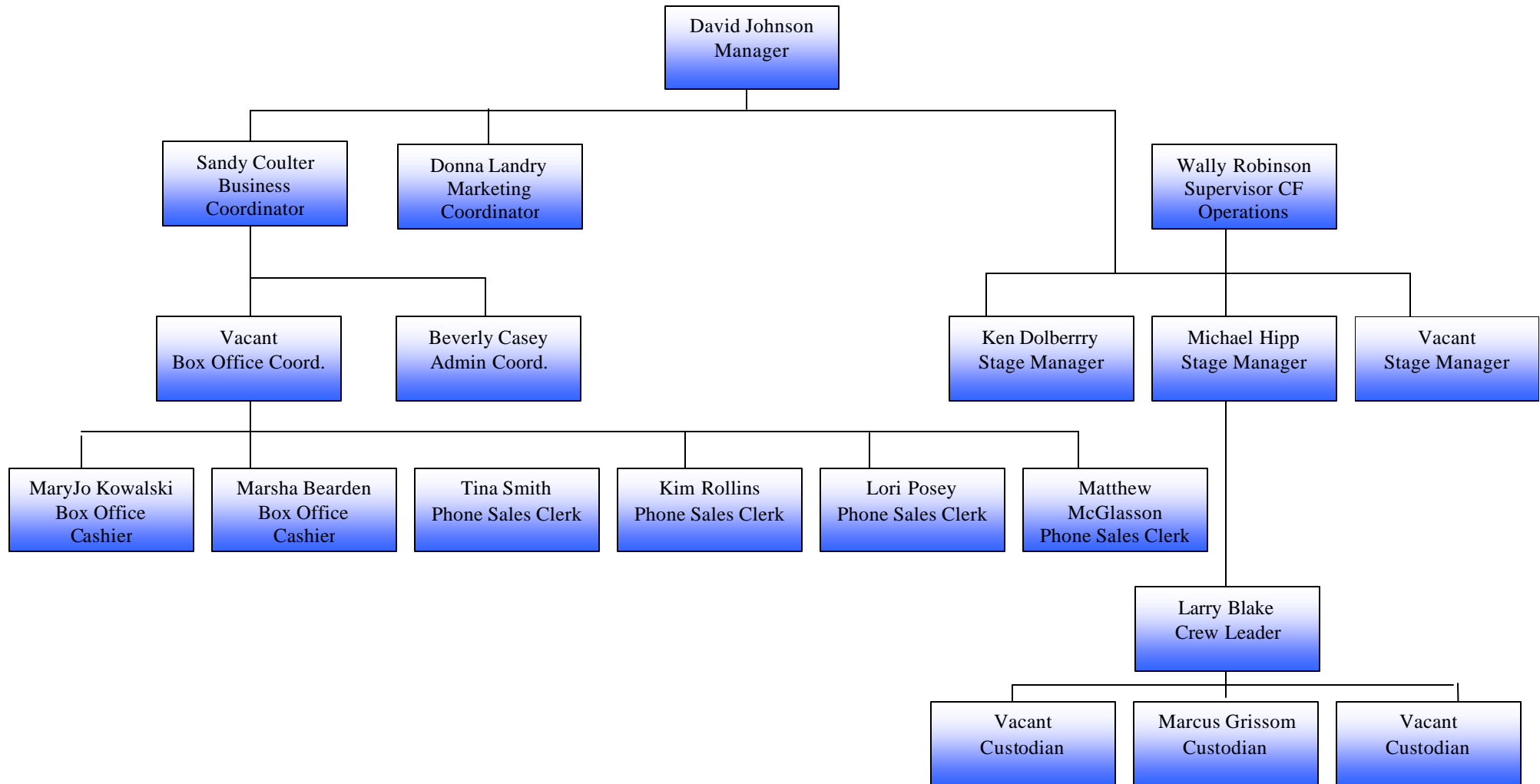
<sup>15</sup> Future Civic Facilities revenues and expenses were derived using an unbiased method of projection. Additionally, to account for nationwide economic conditions, future revenues were further discounted by 25.0%.



## **VII. OVERVIEW OF CIVIC FACILITIES MANAGEMENT**

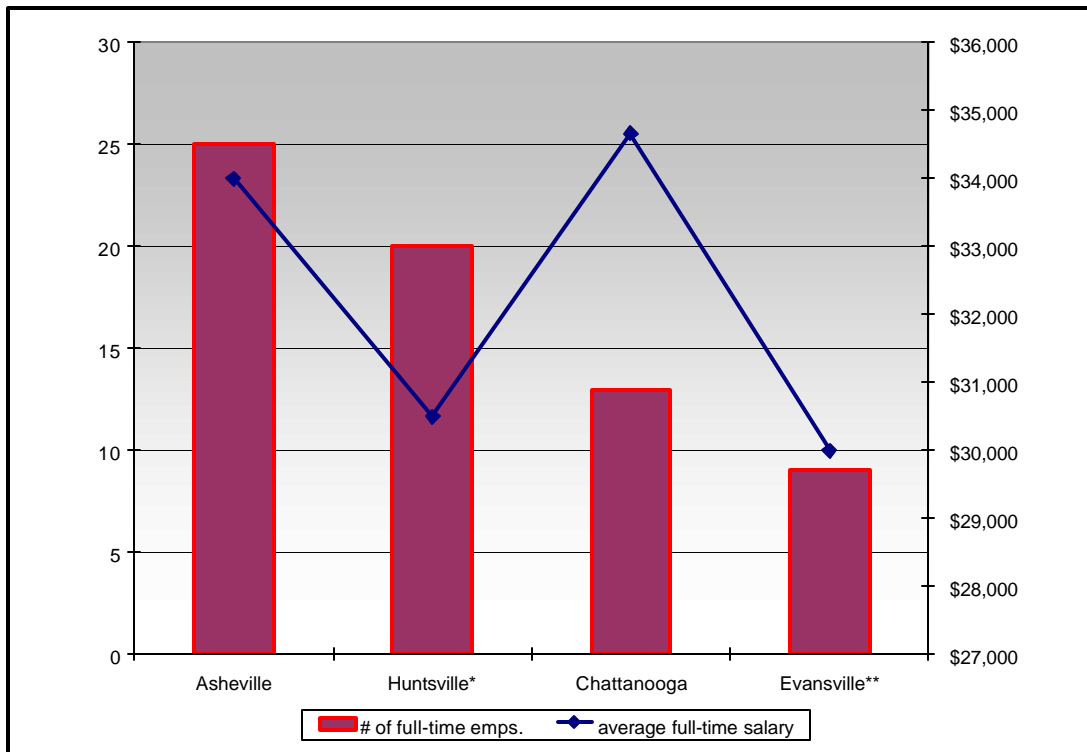
The following is a diagram of the Civic Facilities management structure:

### **MANAGEMENT HIERARCHICAL STRUCTURE Soldiers and Sailors Memorial Auditorium/Tivoli Theater**



The Civic Facilities have a total of 13 full-time staff, six part-time box office staff and no volunteers. The Civic Facilities also employ a temporary part-time security officer and concessions manager. The Civic Facilities' full-time employees earn an average salary of \$34,667. The following chart features FY2003-04 full-time employees and average salary for comparable civic facilities.

**FULL-TIME EMPLOYEES VS AVERAGE FULL-TIME SALARY  
FY2003-04**



\*Estimated for Huntsville Concert Hall and Municipal Auditorium

\*\*Estimated for Evansville Victory Theater

Comparatively, the Evansville Auditorium employees work at five facilities. Evansville suggests that as a stand-alone operation, its Victory Theater would need nine full-time employees with an average salary of \$30,000. In terms of part-time employees, all of the Victory Theater's ushers are volunteers, with around 200 volunteers to help during events. The average hourly rate for part-time employees is \$14.00. This includes police, food service workers, and box office workers.

Huntsville has 60 full-time employees who have an average salary of \$34,000; in the Asheville Civic Center there are 25 full-time employees with an average salary of \$30,500.



**Tivoli/Auditorium Promotion Association.** Currently, there is a City Ordinance that forbids the Civic Facilities' management from purchasing events for self promotion. It is thought that there is too much liability associated with the City purchasing events with taxpayer dollars. Thus, the City Council created the Tivoli/Auditorium Promotion Association ("TAPA") for this purpose. TAPA is a not-for-profit corporation that acts as a buffer between the municipality and show promoters. TAPA purchases shows from booking agents and producers, brings them to facilities and assumes all liability associated with an event's success.

The mission of TAPA is to promote and provide, for the benefit and enjoyment of the public generally and those persons residing in or visiting the Chattanooga area, events or presentations of professional performances to be offered at or in conjunction with Tivoli Theater or Memorial Auditorium, such events or presentations being offered to foster and encourage the public appreciation of professional theatrical, musical, classical, literary, educational and other arts.

The booking philosophy of TAPA is to expose and make known the Memorial Auditorium and Tivoli Theatre to promoters, agents, producers, and users; to solicit from promoters, agents, producers and users opportunities for touring shows, events, meetings and conventions, at Soldiers and Sailors Memorial Auditorium and Tivoli Theater; to expand, broaden, and continue to grow promoter, agent, producer and user base that chooses Soldiers and Sailors Memorial Auditorium and Tivoli Theater as a site for touring shows, events, meetings and conventions.



## **VIII. POTENTIAL MANAGEMENT INITIATIVES**

The following General Fund subsidy projections of the Civic Facilities—developed by City staff and PFM—must be addressed, before they get out of hand<sup>16</sup>:

### **PROJECTED CIVIC FACILITIES GENERAL FUND SUBSIDY FY2003-04 TO FY2007-08**

<b>Fiscal Year</b>	<b>Revenues</b>	<b>Total Expenses</b>	<b>Subsidy</b>
2003-04	\$589,578	(\$1,231,708)	(\$642,130)
2004-05	600,113	(1,050,908)	(450,795)
2005-06	600,893	(1,064,942)	(464,049)
2006-07	609,962	(1,073,736)	(463,774)
2007-08	620,076	(1,085,765)	(465,689)
<b>Total</b>	<b>\$3,020,622</b>	<b>(\$5,507,059)</b>	<b>(\$2,486,437)</b>

*\*Includes \$200,000 for capital improvements*

PFM has recommended management initiative options aimed at expanding revenue or reducing costs (or at least containing their rate of growth to more sustainable levels). Each initiative is accompanied by an estimate of its net fiscal impact for FY2003-04 to FY2007-08 to support the incorporation of each initiative into the City's annual budget and long-term financial planning processes. The initiatives are divided into three categories, each of which eventually ends the City's General Fund subsidy of the Civic Facilities.

In terms of management structures, initiatives presented in the Assessment allow the City to explore Civic Facilities that are publicly owned and operated (including publicly owned and operated by a not-for-profit organization) and publicly owned and privately operated. The following table illustrates the advantages and disadvantages with each management structure.

<sup>16</sup> Projections based on five-year historical average of revenues and expenses with the assumption of \$150,000 generated from preservation fee revenue from FY2003-04 onward.



## ADVANTAGES AND DISADVANTAGES OF CIVIC FACILITY MANAGEMENT STRUCTURES

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	Public Management	Authority or Nonprofit Corporation	Private Management
<b>Advantages</b>	Owner control Financial support Coordination/sharing of staff/ support functions  Bulk-price purchasing	Government representation Special-purpose role Increased operating revenues  Independent revenues  Less constrained by purchasing and civic service requirements	Greatest operating autonomy Efficiency incentives Sensitivity to tenants  More independent in negotiations with unions Greater staffing resources  More objective criteria for accountability
<b>Disadvantages</b>	Purchasing procedures Civic service constraints Contract approval requirements Charging political policies  Lack of incentives Less responsibility to tenants Limited flexibility Lack of dedicated source of funding	Subjection to political influence Lack of incentives Bureaucratic inertia Eroding quality of board membership	Least government control Profit motive versus impact motive Cost to smaller operations

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### 1) ***Management initiatives that allow the City to maintain a municipally owned and operated management structure of its Civic Facilities.***

The initiatives in this category are within the control of the City Council or Civic Facilities' management to implement. **As demonstrated by the table below, the projected fiscal impact of these initiatives is \$2.2 million, including an eventual elimination of the City's General Fund subsidy.** Initiatives in this category include measures to develop the City's concessions, as well as initiatives including a modest increase in preservation fees and internet ticketing. Should surpluses be derived from these initiatives, they could be used to offset capital improvement costs of the City, expand community programming, or be returned to the General Fund.



**DISCOUNTED FISCAL IMPACT  
CIVIC FACILITIES/CITY CONTROLLED MANAGEMENT INITIATIVE OPTIONS**

<b>Initiative</b>	<b>FY2003-04</b>	<b>FY2004-05</b>	<b>FY2005-06</b>	<b>FY2006-07</b>	<b>FY2007-08</b>
Development of Concessions*	\$0	\$70,455	\$363,275	\$364,275	\$364,275
Increase in Preservation Fees	0	75,000	150,000	150,000	150,000
Internet Ticketing	0	72,000	72,000	72,000	72,000
Donation Program	0	5,400	27,000	27,000	27,000
Corporate Sponsorships	0	9,100	45,500	45,500	45,500
<b>Total Fiscal Impact</b>	<b>\$0</b>	<b>\$231,955</b>	<b>\$657,775</b>	<b>\$658,775</b>	<b>\$658,775</b>
<b>Projected General Fund Subsidy</b>	<b>(\$642,130)</b>	<b>(\$450,795)</b>	<b>(\$464,049)</b>	<b>(\$463,774)</b>	<b>(\$465,689)</b>
<b>Remaining (Subsidy)/Surplus</b>	<b>(\$642,130)</b>	<b>(\$218,840)</b>	<b>\$193,726</b>	<b>\$195,001</b>	<b>\$193,086</b>

\*Represents alternative that generates the greatest discounted savings for the City.

**A. Development of Concessions, Including the Sale of Alcohol.**

The City should consider creating a not-for-profit organization that would manage the operations of the Civic Facility. This kind of entity generally consists of a commission or board of directors whose members are appointed by the City Council to act as agents of the City. The role of this organization would be to establish policy, including operating goals, annual budget review, booking priorities, financial needs and funding plans. The roles of the Civic Facilities' management and staff relative to this organization are to implement the policies of the organization and to run the day-to-day business of the Civic Facilities. Management should not set policy, and the organization should not manage day-to-day operations.

The not-for-profit organization would serve as a mechanism through which a liquor license could be purchased through the State, and alcohol can be sold at certain events. As part of its management of the Civic Facilities, the not-for-profit company would issue an RFP to select a contractor who would take responsibility for stocking the Civic Facilities, and would construct a kitchen at the Memorial Auditorium to bolster the concession business.

Chattanooga Civic Facilities concessions are very underdeveloped. The following chart details the Civic Facility concession revenue over the past three years:



**CIVIC FACILITY CONCESSION REVENUE  
FY1997-98 TO 2002-03**

<b>Revenues</b>	<b>FY 1997-98</b>	<b>FY 1998-99</b>	<b>FY 1999-00</b>	<b>FY 2000-01</b>	<b>FY 20001-02</b>	<b>FY 2002-03</b>
Meml Aud Concessions	\$41,441	\$57,460	\$46,270	\$81,899	\$49,266	\$41,441
Tivoli Concessions	17,516	19,237	20,563	20,416	22,223	17,516
<b>Expenses</b>	<b>\$58,957</b>	<b>\$76,697</b>	<b>\$66,833</b>	<b>\$102,315</b>	<b>\$71,489</b>	<b>\$52,097</b>
Civic Fac Concessions	65,828	52,435	37,312	51,323	40,224	33,182
<b>Totals</b>	<b>\$65,828</b>	<b>\$52,435</b>	<b>\$37,312</b>	<b>\$51,323</b>	<b>\$40,224</b>	<b>\$33,182</b>
<b>Net Concession Rev</b>	<b>(\$6,871)</b>	<b>\$24,262</b>	<b>\$29,522</b>	<b>\$50,992</b>	<b>\$31,264</b>	<b>\$18,915</b>

At the facility, patrons are offered soft drinks and a limited selection of snacks. Comparable cities feature a wide array of alcoholic beverages and food.

Management acknowledges the Civic Facilities' problems with concessions, and attributes them to a lack of infrastructure (i.e. eating areas and staff sufficient in training and amount to manage a more extensive concessions operation) and City and State laws that forbid the sale of alcohol at events. Management believes that if a kitchen and eating area were constructed and alcohol was sold at events, concession revenues would increase drastically. Management acknowledges that more extensive concession areas would best be handled by a contractor.

Under Tennessee Code Annotated ("TCA") Section 57-4-10 (a) (4), it is lawful to obtain a liquor permit allowing for the sale of wine and other alcoholic beverages to be consumed on the premises of any *"historic performing arts center"* as defined in Chapter 57-4-102, to those in attendance of the performing arts center subject to the further provision of this chapter other than Chapter 57-4-013. A historic performing arts center is defined in Chapter 57-4-102(18) as

"A facility possessing each of the following characteristics: (a) the center is located in a restored theater that is at least 50 years old and listed on the National Register of Historic Places; **(b) the center is operated by a for profit corporation or not for profit corporation which is exempt from taxation under 501(c)** of the Internal Revenue Code of 1954, where no member or officer, agent or employee of any historic performing arts center shall be paid, or directly or indirectly receive, in the form of salary or other compensation any profits from the sale of alcohol beverages beyond the amount of such salary as may be fixed by its governing body for the reasonable performance of their assigned duties. All profits from the sale of alcoholic beverages by not for profit corporations shall be used for the operation and maintenance of the historic performing arts center, and in furtherance of the purposes of the organization. All profits for the sale of alcoholic beverages by a for profit corporation shall be used for the operation, the renovation, refurbishing, and





maintenance of the same. Alcoholic beverages shall only be sold before or after performances or during intermission in such performances. No alcoholic beverages shall be consumed inside the auditorium of such center; (c) the center provides facilities for programs of cultural, civic and educational interests including, but not limited to, stage plays, musical concerts, films, dance performances, receptions, exhibitions, seminars or meetings; (d) the center is located in any county having a population of not less 300,000 and not more than 400,000 according to the 1980 Federal Census or any subsequent Federal Census.”

The Memorial Auditorium is listed on the National Register of Historic Places. It was added in 1980 and is building No. 80003823. The Tivoli Theater is also listed on the National Register of Historic Places. It was added in 1973 and is building No. 73001779. Both centers provide facilities for programs of cultural, civic and educational interests. Chattanooga, as of the last Federal Census, had a population of 307,000. Thus, requirements (a), (c) and (d) are met. ***The only requirement lacking in order for the Tivoli and the Memorial Auditorium to sell alcoholic beverages is (b) which requires the center to be operated by a for profit or not for profit corporation. This initiative allows the City to satisfy this legal provision by addressing the creation of a not-for-profit Civic Facility management organization.***

It appears that the only City restriction on the sale of alcoholic beverages in a publicly-owned building might be the distance requirement cited in City Code Section 5-75(b). The City will require a change in Ordinance for the Civic Facilities to satisfy this provision:

“The sale of beer or other beverages of a like alcohol content for consumption on the premises within 500 feet...as measured from any doorway entrance to the building of the applicant regularly used for public ingress or egress to the nearest doorway entrance of the facility as defined in Chattanooga City Code Section 11-422(a) or other place of public gathering regularly used for public ingress or egress shall be prohibited; provided however, this prohibition shall not apply to any proposed permit location within the area zoned C-3 Central Business District; provided further that this distance proximity prohibition shall not apply to any location that has heretofore been issued a valid permit to sell, store or manufacture beer.”

The Chattanooga Symphony Orchestra Association holds events at the Tivoli Theater. For its events, it is able to obtain a temporary liquor license from the State for sale of alcohol at 12 events per year that is eligible for not-for-profit organizations. If the City satisfied the requirements of TCA Chapter 57-4-102 related to meeting the criteria of a historic performing arts center, it would have to obtain a liquor license from the Tennessee Alcoholic Beverage Commission. This license would cost the City an upfront payment of \$10,000 for an alcohol license bond and \$300 per year for the actual permit.<sup>17</sup>

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<sup>17</sup> If alcohol were sold at the Civic Facilities, customers would have to pay a 15% tax on beverages sold in addition to a state tax of 9.75%. The \$10,000 amount represents an upfront bond (i.e. reserve account) that must be maintained in the case that the City's tax funds are not properly remitted to the State in addition to the \$300 annual licensing fee costs.



PFM contacted vendors on the amount of concession revenue that can reasonably be generated in a city such as Chattanooga, based on industry experience. It is also important to note that contractors have been responsible for as much as a 90.0% increase in revenues at some facilities.

Based on attendance figures and event mix that are featured at the Civic Facilities, contractors estimate that at the very least these facilities have the capability to generate between \$1.00 and \$1.50 per person. Excluding catering for this calculation, it can be estimated that concessions could generate approximately \$350,000 to \$400,000 for the combined facilities. Comparable facilities in Raleigh and Knoxville each with 350 to 400 events per year generate revenues ranging from \$680,000 to \$800,000.

The Civic Facilities should also consider granting exclusive catering rights to one vendor at both facilities. This would make it more attractive for a long-term relationship and could supply the City with an additional \$150,000 to \$250,000 in revenues, bringing the total revenues generated at the Civic Facilities to about \$650,000 per year.

Alcohol is served at a majority of facilities used as comparables in the Civic Facilities Assessment. Concession sales at the Pensacola Civic Center, for example, are nearly 31.0% of all of its revenues, as reported by the chart below:

**PENSACOLA CIVIC CENTER CONCESSIONS  
FY2000-01 TO FY2002-03**

	<b>FY 2000-01</b>	<b>FY 2001-02</b>	<b>FY 2002-03</b>
Food	\$258,102	\$224,607	\$225,780
Beverage	295,117	239,483	233,866
Alcohol	402,591	368,239	458,134
<b>Total</b>	<b>\$955,810</b>	<b>\$832,329</b>	<b>\$917,780</b>

Additionally, Asheville and Birmingham report that the sale of alcohol and food are a major component of their revenues, representing over 33.0%. Birmingham notes that at a high-profile event, it is not uncommon to realize \$3,000 in alcohol sales. Asheville also reports that concessions make up more approximately 31.0% of its total revenues, with \$387,237 alone coming from its concession revenue.

A large part of the success of concession sales at the Civic Facilities will depend on gaining authorization from the City Council to sell alcohol at the Civic Facilities. A lack of this authorization can be expected to reduce the expected contractor concession revenue by 33.0%, from \$650,000 to \$429,000. However this is still a large increase from the current situation of the Civic Facilities, and will reduce the subsidy greatly.

Following the success of Philadelphia, the City should consider establishing a Productivity Bank, in which the Civic Facilities will submit cost-benefit analysis justifying investment to the City Administration and Council, binding it to pre-committed levels of operating savings and an interest payment each year in return for up-front investment. Savings could be used



to offset capital improvement costs of the City, expand community programming, or be returned to the General Fund.

This approach could be used to put in place a modernized kitchen that would allow a contractor to operate at maximum efficiency. A kitchen is estimated at \$250,000 per year, which could be funded through the Productivity Bank method.

Assuming that the Civic Facilities receive a one-time investment from the City of \$250,000, it could repay these funds over a period five years, at \$50,000 per year at an interest rate of approximately 2.0%. The City would appropriate these funds from the Civic Facilities' budget each year. On a non-discounted basis, revenue from this initiative would equal \$362,975 per year if alcohol is served (\$650,000 in revenue generated by concession operation \* 33.0% management fee paid to Contractor – \$51,000 in revenue remitted to the Productivity Bank – \$21,225 in average five-year net revenues already realized by the Civic Facilities' concessions – \$300 annual licensing fee costs) versus \$254,400 if alcohol is not served (\$487,500 representing concession sales without alcohol \* 33.0% fee paid to City - \$51,000 remitted to Productivity Bank – \$21,225 in average five-year net revenues already realized by the Civic Facilities' concessions). Additionally, if alcohol is served, the City will have to spend an additional \$10,000 for the alcohol licensing bond, bringing the first year's undiscounted savings down to \$352,975.

### Discounting Methodology

As a newly suggested initiative that requires City Council approval, it is assumed that the full fiscal impact of this initiative could begin to be reached after two years. Consequently, the potential fiscal impact will be discounted by 100.0% in FY2003-04 and 80.0% in FY2004-05. **Employing this level of discounting, the total fiscal impact of this initiative is \$1,160,280 in the case in which alcohol is served, versus \$814,080 in the case in which alcohol is not served.** The following table demonstrates the discounted fiscal impact of this initiative:

#### DISCOUNTED FISCAL IMPACT DEVELOPMENT OF CONCESSIONS, SALE OF ALCOHOL

	FY2003-04	FY2004-06	FY2006-07	FY2007-08	FY2008-09
Discount %	100%	80%	0%	0%	0%
Fiscal Impact if alcohol is served	\$0	70,455	363,275	364,275	364,275
<b>Remaining General Fund (Subsidy)/Surplus</b>	<b>(\$492,130)</b>	<b>(\$230,340)</b>	<b>49,226</b>	<b>50,501</b>	<b>48,586</b>
Fiscal Impact if alcohol is not served	\$0	50,880	254,400	254,400	254,400
<b>Remaining General Fund (Subsidy)/Surplus</b>	<b>(\$492,130)</b>	<b>(\$249,915)</b>	<b>(\$59,649)</b>	<b>(\$59,374)</b>	<b>(\$61,289)</b>



## B. Explore a Modest Increase in the City's Preservation Fee

The Civic Facilities should explore a modest increase in the preservation fee it established in FY2002-03. As previously noted, the Civic Facilities top sources of revenues are its rental fees, at \$394,921 of total revenues, or 60.0%. The Civic Facilities should establish a reasonable threshold in increasing preservation fees while maintaining its current tenants.

Management estimates that based on the current rate structure, the average preservation fee on tickets sold is \$.50. PFM proposes that doubling the average preservation fee on tickets sold to \$1.00 is reasonable and would generate a substantial amount of additional revenue. The following table demonstrates the new preservation fee structure needed to achieve an average rate of \$1.00 per ticket.

\$1.00 on tickets costing \$0.00 - \$10.00
\$1.50 on tickets costing \$10.01 - \$20.00
\$2.00 on tickets costing \$20.01 and above

Based on historical trends, it can be assumed that the Civic Facilities will average attendance of approximately 300,000 patrons each year. As such, revenues from preservation fees will double from \$150,000 to \$300,000. (300,000 estimated visitors each year \* \$1.00 new average preservation fee per ticket). This will significantly reduce the City's estimated General Fund subsidy of the Civic Facilities.

### Discounting Methodology

As a newly suggested initiative that requires City Council approval, it is assumed that the full fiscal impact of this initiative could begin to be reached after two years. Consequently, the potential fiscal impact will be discounted by 100.0% in FY2003-04 and 50.0% in FY2004-05. **Employing this level of discounting, the total fiscal impact of this initiative is \$525,000.** The following table demonstrates the discounted fiscal impact of this initiative:

#### DISCOUNTED FISCAL IMPACT INCREASE IN PRESERVATION FEE

	FY2003-04	FY2004-05	FY2005-06	FY2006-07	FY2007-08
Discount %	100%	50%	0%	0%	0%
Fiscal Impact	\$0	\$75,000	\$150,000	\$150,000	\$150,000



### C. Use Managed Competition to Hire a Contractor Who Would Either Operate the City's Ticketing or Offer the City Internet Ticketing.

The City should explore using a contractor to manage the ticketing operation at the Civic Facilities. An analysis of comparable civic facilities demonstrates that Asheville, Pensacola, Huntsville and Evansville use Ticketmaster for their operations. In each agreement, Ticketmaster receives an administrative fee to sell tickets for an event (i.e. via internet or box office) and market events on its web page.

In FY2001-02, Ticketmaster presented the City with a proposal to operate ticketing at the Civic Facilities. The Civic Facilities estimates that for an agreement to be reached in the future, it would have to relinquish 75.0% of its ticketing revenues. Currently, the Civic Facilities benefit from experienced staff that is capable of managing the City's ticketing operation such that significant revenues are generated.

The following table illustrates Civic Facilities' revenues generated by ticketing activities from FY1998-99 to FY2002-03. In FY2002-03, the City generated \$160,912 in revenue from its ticketing operation, representing 26.0% of its \$610,429 in total theater revenue.

#### TICKETING OPERATION REVENUES FY1998-99 TO FY2002-03

	FY 1996-97	FY 1997-98	FY 1998-99	FY 1999-00	FY 2000-01	FY 2001-02	FY 2002-03
Meml Aud Credit Card Fees					\$23,515	\$56,777	\$25,668
Meml Aud Ticket Stock					1,877	1,897	1,084
Meml Aud Postage					2,403	1,931	1,387
Meml Aud Box Office	\$45,675	\$63,922	\$112,277	\$84,009	63,749	106,412	78,103
Tivoli Credit Card Fees					9,256	11,021	12,678
Tivoli Ticket Stock					456	408	3,682
Tivoli Pres. Fee							
Tivoli Postage					404	414	648
Tivoli Box Office	28,490	15,276	28,836	32,745	28,950	32,465	37,663
<b>TOTAL ACTIVITY</b>	<b>\$74,165</b>	<b>\$79,199</b>	<b>\$141,113</b>	<b>\$116,754</b>	<b>\$130,610</b>	<b>\$211,324</b>	<b>\$160,912</b>

Based on FY2002-03 numbers, if the City were to outsource its ticketing operation, it would have to pay the contractor \$120,684 representing 75.0% of total revenues from its ticketing operation.

Relative to this, however, Civic Facilities' management assumes that it would be able to generate \$43,000 in savings from relinquishing three of its part-time box office employees earning an average of \$12,000 per year in salaries and total overtime of \$7,000. Additionally, it would also be able to relinquish three temporary employees who — combined — earn a total of \$35,000 per year. These cutbacks would result in undiscounted savings of \$78,000 per year in salaries and overtime.



On a net cash flow basis, the total fiscal impact of outsourcing the ticketing operation would be a loss of \$42,684 to the City (\$120,684 representing fee paid to contractor - \$78,000 in total personnel savings). An analysis of comparable facilities indicates that a contractor is often used for ticketing when a facility lacks the ability internally manage and collect revenues from its ticketing operation. To the Civic Facilities' benefit, it is not in this position.

It is estimated that the City would lose revenue by hiring a contractor to manage ticketing. However, management estimates that there are savings instead to be gained through internet ticketing. In FY2003-04, the Civic Facilities anticipates issuing an RFP for a new ticketing software provider that would allow Civic Facilities' patrons to order tickets via the internet. Currently, ticket purchasing is done either over the telephone or at the box office on the day of an event. Civic Facilities' management estimates that internet ticketing would result in savings through reduced personnel expenses.

The City estimates that if it were to provide internet ticketing, it would have to pay the website provider a licensing and maintenance fee of approximately \$4,500 for use of ticketing software and the internet website. However, relative to these costs the Civic Facilities would be able to relinquish three temporary employees, who cost the City \$36,000 in wages and \$7,000 in overtime per year, as well as two part-time box office employees, who cost the City \$24,000 in wages and \$5,000 in overtime. This results in undiscounted savings of \$72,000 per year.

### Discounting Methodology

Selecting a company that would provide the Civic Facilities with internet ticketing is within management control. Consequently, the potential fiscal impact of this initiative will be discounted by 100.0% in FY2003-04 and 0% in FY2004-05. **Employing this level of discounting, the total fiscal impact of this initiative is \$288,000.** The following table demonstrates the discounted fiscal impact of this initiative:

#### DISCOUNTED FISCAL IMPACT OUTSOURCING TICKETING OPERATION

	FY2003-04	FY2004-05	FY2005-06	FY2006-07	FY2007-08
Discount %	100%	0%	0%	0%	0%
Fiscal Impact	\$0	\$72,000	\$72,000	\$72,000	\$72,000

### D. Engage an Advertising Agency to Secure Corporate Sponsorships at the Civic Facilities

The Civic Facilities have not sought corporate sponsors due to their operation policy. As noted, there is a City Ordinance in place that forbids the Civic Facilities from purchasing events from promoters and selling tickets for the opportunity to profit. Additionally, under state statute a performer has the right to deny any corporate sponsor for her events. Thus, the Civic Facilities' management believes that since it does not purchase events and





assume the risk associated for an event's financial shortcomings, a promoter would prohibit it from having corporate sponsors.

However, promoters, who do assume the risk associated with purchasing an event, have secured corporate sponsorships at the Civic Facilities in the form of local television stations, restaurants and hospital and other businesses. Civic Facility management estimates that five events per year are sponsored at the Civic Facilities, generating approximately \$5,000 each. This results in total revenue from corporate sponsorship of \$25,000.

Based on comparable cities, a marketing agency would be able to generate a much higher figure than \$25,000 at the Civic Facilities from corporate sponsorships. For example, Huntsville and Ames receive approximately \$50,000 to \$80,000 on average for signage and other forms of publicity granted to local businesses and media at their venues. While the City has not pursued this because it does not purchase events, management estimates that an advertising agency would charge an administrative fee 15.0% of corporate sponsorship revenue to operate this business. Management also estimates that the advertising agency would also be able to negotiate a payment agreement whereby the City passes an additional 15.0% of its corporate sponsorship revenue through to the promoter to compensate them for their risks. Based on the amount of revenue generated by comparable cities from corporate sponsorship programs, the Civic Facilities would realize approximately \$65,000 per year in undiscounted corporate sponsorship revenue, 30.0% of which (\$19,500) of which will be split evenly (\$9,750) between the advertising agency and promoters.

### Discounting Methodology

Securing corporate sponsorship at the Civic Facilities would require City Council approval of an advertising agency. As such, it is assumed that the fiscal impact of this initiative could begin to be reached after two years. Consequently, the potential fiscal impact will be discounted by 100.0% in FY2003-04 and 80.0% in FY2004-05. **Employing this level of discounting, the total fiscal impact of this initiative is \$145,600.** The following table demonstrates the discounted fiscal impact of this initiative:

#### DISCOUNTED FISCAL IMPACT SECURING CORPORATE SPONSORSHIPS

	FY2003-04	FY2004-05	FY2005-06	FY2006-07	FY2007-08
Discount %	100%	80%	0%	0%	0%
Fiscal Impact	\$0	\$9,100	\$45,500	\$45,500	\$45,500



#### **CORPORATE SPONSORSHIPS: MUSIC HALL/MAJESTIC THEATER, DALLAS, TX**

Currently, the Chattanooga Civic Facilities as secondary market venues operate primarily as a rental facility, and thus do not have the exposure to secure corporate sponsorships. The Dallas Music Hall and the Dallas Majestic Theater were in the same position until it hired a contractor, Dallas Summer Musicals ("DSM"), to manage the facility. Following DSM's hiring, the occupancy at the theater increased from 6% in FY1997-98 to 60% in FY2002-03. Along with the growth in occupancy, the contractor was able to lure corporate sponsors to the theater. It established agreements with local television stations in which there were weekly promotions in exchange in for tickets and television station names at events. Additionally, there are automobile promotions in which the theater receives cash in exchange for tickets and event sponsorship. For these corporate sponsorships, the Theater's receive nearly \$200,000 in annual revenues.

#### **E. Develop a Donation Program at the Civic Facilities**

As noted, the General Fund subsidy of Civic Facilities' operations is projected at nearly \$400,000 per year over the next five years. This General Fund subsidy includes tax dollars of both patrons and non-patrons of the Civic Facilities.

As practiced in Iowa, Huntsville, Evansville and Dallas, the Civic Facilities should solicit donations from patrons. The rationale would be to give patrons whose lives are enhanced by the programming at the Tivoli Theater and Memorial Auditorium, an opportunity to show their support of these venues through a donation before the entire City is burdened with subsidizing the facilities.

Historically, the Civic Facilities' attendance has averaged 300,000 people between the Tivoli Theater and Memorial Auditorium. Civic Facilities' management estimates that of this amount, there are approximately 175,000 unique patrons each year<sup>18</sup>.

Rather than hiring additional part-time employees to administer a donation program, the Civic Facilities could solicit donations through its internet website (i.e. in conjunction with initiative "III") and over the phone by credit card. Following a patron's verbal promise to donate funds, Civic Facilities staff would send out brief mailers reminding these individuals of their donation promise.

Based on revenues received in Iowa, Huntsville, Evansville and Dallas, it can reasonably be expected that the Civic Facilities can generate at least \$30,000 per year in donations. This equates to an average donation of \$10 from 3,000 of its 175,000 patrons, or 3.0%. Relative to the \$30,000 in administrative costs, the Civic Facilities would lose approximately 5.0% of these revenues—\$3,000—in administrative charges associated with

<sup>18</sup> Attendance estimate of 300,000 people for the Tivoli Theater and Memorial Auditorium includes repeat visitors. The 175,000 estimates includes estimate for actual number of patrons at these venues each year.





mailing of reminders and additional phone calls to patrons. This leaves the Civic Facilities with \$27,000 in undiscounted net revenues per year.

## Discounting Methodology

Since this is an initiative that is in the control of the Civic Facilities' management to implement, it is assumed that a donation program could be fully in place after one year. Subsequently, FY2003-04 is discounted by 100.0% and FY2004-05 is discounted by 80%. **Employing this discounting methodology, the total fiscal impact of this initiative is \$86,400.** The following table demonstrates the discounted fiscal impact of this initiative.

### DISCOUNTED FISCAL IMPACT DEVELOPING A DONATION PROGRAM

	FY2003-04	FY2004-05	FY2005-06	FY2006-07	FY2007-08
Discount %	100%	80%	0%	0%	0%
Fiscal Impact	\$0	\$5,400	\$27,000	\$27,000	\$27,000

## 2) *Management initiatives that allow the City to effect a publicly owned and privately operated management structure for its Civic Facilities.*

The following are the initiatives that fall under this category:

- A. *Outsourcing all aspects of the Civic Facilities' operations (e.g. ticketing, concessions, marketing, etc.).* This would affect a municipally owned/private operated management structure of the Civic Facilities, a more streamlined management structure than the option presented in category "1". **The total fiscal impact of this initiative is \$887,528 million and an eventual elimination of the General Fund subsidy of the Civic Facilities.**
- B. *An initiative to lease the Civic Facilities to a private contractor for a fee.* This initiative would allow the City to eliminate its General Fund subsidy of the Civic Facilities in less than two years and provide the City with recurring revenue from the lease fee. However, under this structure, the City would have minimal influence as to the direction of the Civic Facilities and how the private company chooses to operate the facility. This initiative will allow the City to effectively eliminate its General Fund subsidy once a lease agreement is reached. **The total fiscal impact of this initiative is \$1,215,369, including an eventual elimination of the City's General Fund subsidy of the Civic Facilities.**

## A. **Use Managed Competition to Engage an Outside Party to Operate the Civic Facilities.**

The City is currently dedicated to ensuring the fiscal health of its Civic Facilities. However, due to its position in a secondary market, its inability to invest in the infrastructure and personnel needed to effectively establish a concession business, and a restriction on



selling alcoholic beverages at the Civic Facilities, the City is potentially faced with subsidizing Civic Facility activities at a level of \$2.4 million over the next five years.

The City should consider using a competitive RFP process to engage a contractor who will be in charge of all Civic Facility operations. This will include concessions, box office operations, capital improvements and booking. Today, civic facility management companies operate nearly 100 major public assembly facilities for a management or lease. Also, three or four smaller companies operate over 30 smaller centers. Nearly all contracts contain some form of incentive or performance-related compensation. Since 1972, an increasing number of governments have contracted with private management companies to operate government-owned facilities.

The information in following sections is drawn largely from a Cornell H.R.A. Quarterly report on civic facility management, which summarizes the advantages of privatizing civic facilities.

**Profitability.** Private management organizations offer municipalities such additional lures as the opportunity to create new revenue sources (i.e. corporate sponsorships), improved tenant relations, increased and diversified use, physical-property enhancements, greater community involvement, more efficient and more accountable employees, and better relationships with subcontractors. But profit has remained the primary incentive. Because a profit motive lies at the heart of private management, the focus remains fixed on positive net income. That approach rarely exists under municipal management. Placing financial stability as the top priority benefits both the municipality and the management company as the latter's compensation package is often based on incentives tied to bottom-line profit. In 1998, the Dallas Music Hall and Majestic Theater were operated by a not-for-profit corporation. The Theaters functioned as secondary market venues, not having enough leverage to support first run shows and draw popular acts. As a result, the Theater only achieved 6.0% occupancy and was not reaching its full revenue potential. That year, the City of Dallas hired Dallas Summer Musicals, a facility management organization, whose guidance allowed the venues to generate a surplus of approximately \$500,000.

As mentioned, the City plans to issue an RFP in FY2003-04 to find a vendor that would provide more efficient ticketing software and an internet ticket payment option. Instead of completing this, the City may wish to issue an RFP for a contractor to run all operations of the Civic Facilities that would include the ticketing operation. The contractor, in running multiple facilities, would be able to draw on valuable experiences with running similar venues, allowing it to select a ticketing agent that is best suited to accomplishing the overall objectives of the Civic Facilities at a most reasonable rate.



### **MEMPHIS, TENNESSEE—COOK CONVENTION CENTER CONTRACT MANAGEMENT**

In 1992, the City of Memphis/County of Shelby contracted with a private manager, Spectator Management Group (SMG), in order to reduce the Cook Convention Center's annual operating deficit of \$1.78 million per year.

The first budget submitted by SMG, for fiscal year 1994, showed a reduction of \$220,000 from the originally approved budget for the time period. The operations budget was further reduced for the next year from an operating deficit of \$1.78 million to \$1.25 million –\$500,000 in savings.

SMG officials attribute a large portion of the savings to restructuring the food and beverage system. Under the city's management, the concession system, like Chattanooga, was opened to several caterers, and the center provided a portion of the concessions as well. SMG competitively bid out concession services to an exclusive provider, saving \$250,000 per year.

Additionally, the transition of the Memphis Cook Convention Center to private management resulted in very little, if any, disruption to former employees. SMG offered positions to 27 of the convention center's 32 full-time employees. Those not retained found employment in other city departments.



## **ALBANY NEW YORK—PALACE PERFORMING ARTS CENTER CONTRACT MANAGEMENT**

- **2,844 theater seats**
- **Recently completed over \$5 million renovation, including a \$2 million grant from Governor Pataki**
- **Home to the Albany Symphony Orchestra**
- **Co-anchor with Pepsi Arena of the Pearl Street corridor, Albany's Entertainment District.**

Built in 1931, the Palace Theatre has been in continuous use for 72 years. Under Spectator Management Group's ("SMG") management since July, 2002, the Palace has been transformed from a rock and roll roadhouse to a cultural and performing arts center.

### **Significant Achievements**

- Contractor implemented a \$3.5 million Phase 1 renovations program in 3.5 months to meet a firm deadline. Since then, an additional \$2 million in Phase 2 renovations have been planned, with SMG implementing the first \$1 million in upgrades over eight weeks in the summer of 2003.
- Contractor worked with the Palace Performing Arts Center Board of Directors to coordinate rentals and book shows directly. The first half season showcased Yo Yo Ma, Jerry Seinfeld, Aretha Franklin, Tony Bennett, Ray Charles, Steve and Edye, Hall and Oates, BB King, and Tori Amos.
- Contractor developed and implemented a fund raising program designed to improve the Palace Theatre's capital position, and raised more than \$200,000 in the first nine months of operations
- Contractor used its national booking reputation and leverage with large promoters to place 41 events in the theatre in six months of operations, with an attendance of 74,361 (versus 67 events with an attendance of 110,770 for entire prior year).
- Contractor has developed a full service Marketing Department which provides support to outside promoters as well as executing marketing for the Palace Presents Series. This function has been well utilized by the Palace's promoting partners, helping the promoters to sell more tickets and improving promoter's loyalty to the facility.



### EXAMPLES OF PRIVATIZED FACILITIES

Egan Convention Center; Anchorage, AK	Kansas Expocentre; Topeka, KS
Sullivan Sports Arena; Anchorage, AK	Monroe Civic Center; Monroe, LA
Mobile Civic Center; Mobile, AL	Pontchartrain Center; Kenner, LA
Mobile Convention Center; Mobile, AL	Evansville Auditorium; Evansville, IN
Long Beach Convention Center; Long Beach, CA	Shubert Theater; New Haven, CT
Los Angeles Coliseum and Sports Arena; Los Angeles, CA	U. Mass Mullins Center; Amherst, MA
Moscone Center; San Francisco, Ca	Springfield Civic Center; Springfield, MO
Palm Springs Convention Center; Hartford, CT	Pershing Auditorium; Lincoln, NE
Colorado Convention Center; Denver, CO	Meadowland Convention Center; Secaucus, NJ
Florida Suncoast Dome/Bayfront Center; St. Petersburg, FL	Nassau Coliseum; Uniondale, NY
Ft. Lauderdale Convention Center; Ft. Lauderdale, FL	Niagara Falls Civic Center; Niagara Falls, NY
Jacksonville Facilities; Jacksonville, FL	Ervin J. Nutter Center; Dayton, OH
James L. Knight Center; Miami, FL	Philadelphia Civic Center; Philadelphia, PA
Miami Beach Convention Center; Miami Beach, FL	Sioux Falls Arena; Sioux Falls, SD
Pensacola Civic Facilities; Pensacola, FL	Memphis Cook Convention Center; Memphis, TN
Five Seasons Center; Cedar Rapids, IA	Nashville Area; Nashville, TN
Iowa State Center; Ames, IA	Salt Palace Center; Salt Lake City, UT
Peoria Civic Center; Peoria, IA	Patriot Center; Fairfax, VA
Rosemont Horizon; Rosemont, IL	Richmond Coliseum; Richmond, VA
Roberts Stadium; Evansville, IN	Saginaw Civic Facilities; Saginaw, MI

**Sale of Alcohol and Development of Concessions.** The contractor would be in charge of the City's concessions operations. The contractor would take responsibility for stocking the Civic Facilities, and could construct a kitchen at the Memorial Auditorium to bolster the concession business.

**Negotiating Savvy.** Another advantage inherent in privatization is the negotiating savvy that a management company can bring to bear on tenants, promoters, and concessionaires. Major facility-management organizations have years of experience in negotiating deals for permanent tenant commitments, renewing rental agreements, and recurring events and attractions. They also bring a history of accomplishment in the negotiation of tangential services such as food and beverage concessions, souvenir sales, security, sanitation, and parking.

The largest management companies enjoy considerable economies of scale and value maximization via the leveraging of their multiple facilities. That is, they are often able to negotiate lucrative deals with suppliers based on multi-year contracts encompassing several areas or theaters—which is especially advantageous for negotiating with food service purveyors.

**Industry Clout.** The clout that a management company brings to the bargaining table frequently leads to more bookings at a lower cost than are usually achievable by a single municipality. For example, after a successful event, promoters will often schedule their programs in different locales in sister facilities that are run by the same operator. Clearly,



as the number of event days at each one of an operator's facilities increase, the overall operating expenses and overhead decline. The multi-year network allows each property under the contractor's domain to benefit from the success of the others. This type of multi-venue, multi-date leverage cannot be achieved by Chattanooga negotiating on its own.

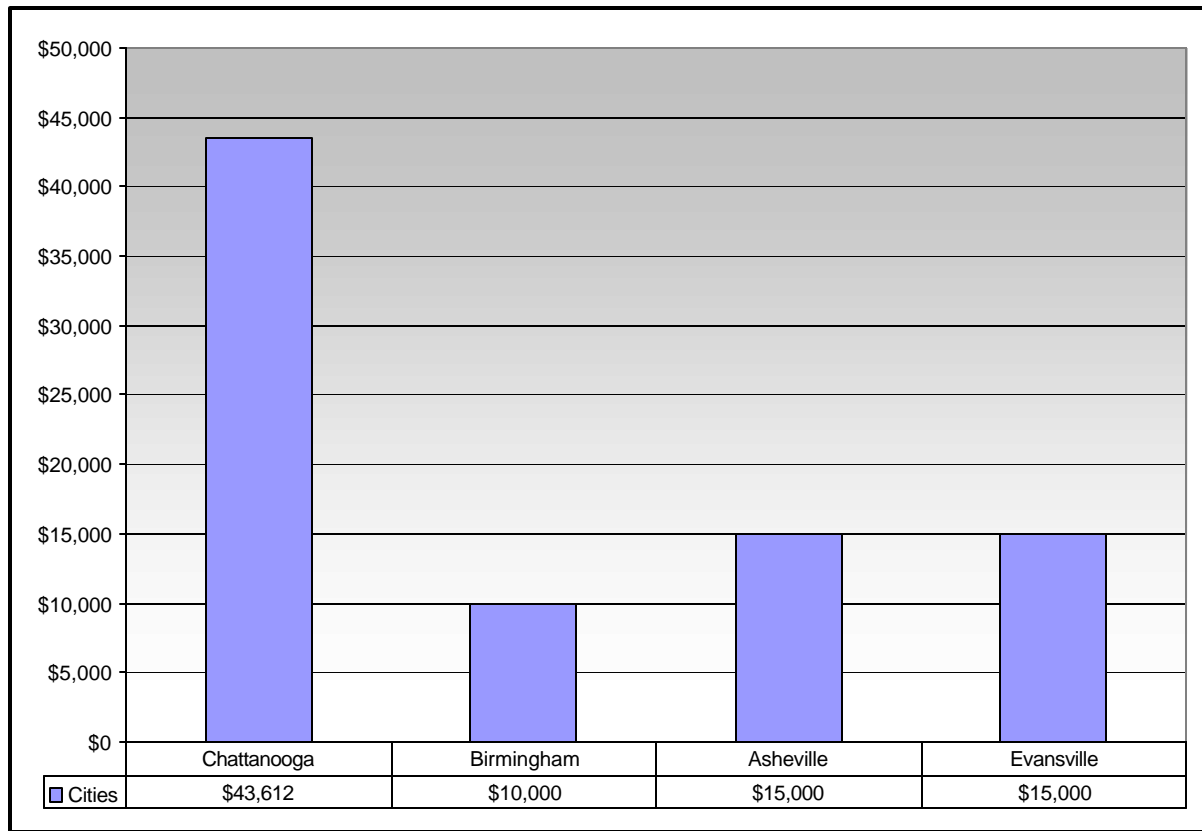
**Reduced Personnel Expenses.** An advantage associated with privatization involves increased employee efficiency and lower personnel expenses. Private firms manage hundreds of facilities nationwide, and are able to use their experience to operate a facility with minimum personnel expenses (i.e. staffing and overtime). For example, prior to privatization, New Haven had 30 total staff at its Shubert Theater. Following the hiring of the contractor, total staffing levels and personnel expenses dropped by 50.0% and overtime decreased drastically.

As noted, the major driver of Civic Facilities' expenses is its personnel costs. With average costs of \$529,174 over the past three years, the Civic Facilities' personnel costs have accounted for an average of 83.0% of total revenues. The Civic Facilities is likely to reduce these costs through outsourcing management.

Another major challenge at the Civic Facilities that a contractor would be able to address is overtime. In FY2002-03, the City had approximately \$43,000 in overtime. Of these costs, approximately \$21,500 (50.0%) was attributed to the City's two stagehands, whose salaries and overtime are paid by the City. Compared to several comparable cities, the overtime expense of the City is the highest. Civic Facilities' management also attributes the high overtime trends to its vacant custodian, and stage manager. Management believes that it is more financially prudent to leave these positions vacant and incur additional overtime costs associated with filling them. The following table compares annual overtime expenses among comparable cities:



### COMPARISON OF OVERTIME TRENDS FY2002-03



At each of the comparable facilities, management does not schedule part-time employees to receive overtime. Most of their full-time employees are salaried with the only people that receive overtime being maintenance workers. While Asheville has overtime expenses of \$15,000 for FY2002-03, it also has only 11 full-time employees; Evansville has 21 full-time employees with \$15,000 in overtime. The City is currently planning to issue an RFP to solicit a vendor to provide online ticketing and ticketing software. The City anticipates that an online ticketing option will allow it to relieve three of its part-time employees, lowering its overtime significantly to an average of \$21,000 per year.

**More Events.** As noted, the Memorial Auditorium is behind comparable facilities in attendance and total amount of events booked per year. The numbers of attractions at the Civic Facilities will likely increase if it is operated by a private corporation as promoters are encouraged to “book the whole package.” For promoters who are familiar with a particular management, company’s various sites, the decision to include several properties within a tour is relatively simple. Once a track record, good relations, and a sense of trust and confidence are established, then the stage is set for a continuing business relationship extending well into the future.





Private management firms also maintain the ability to develop their own programming and to promote events inaccessible to municipally owned facilities. Most of the major contract management companies boast a venture-capital division that specializes in creating and staging activities of their own devising. In this way, a privatized facility functions as something more than a hall for rental; it becomes a cooperative venture between the management company and the municipality. The management company is less a custodian of the property than a vested partner.

**Aggressive Marketing.** Another advantage to privatization lies in aggressive marketing. Rather than relying on clients to approach them for rental information, management companies take the initiative and seek out political events and attractions. Private management companies institute dedicated marketing programs for each facility under their supervision. Once an event is booked, they are able to promote it more widely and often more creatively than a municipality acting alone.

**Negotiating the Contract.** While privatization denotes a relinquishing of some control, the City can negotiate a management agreement that will allow it to maintain its current employee staff, which would be absorbed by the contractor. This would be ideal in the case of Chattanooga, in which there are only nine full-time employees.

It is clear from financial trends that there is a large amount of employee overtime as a result of management's hope to keep overall costs down by not filling two vacant positions. The additional staff supplied by the contractor would be able to address the short-staffing at the Civic Facilities and drastically reduce overtime trends.

In most cases, the governing body enjoys continued ownership, approval of operating and capital budgets, direction and supervision of policy, regular financial and management reports, and the ability to terminate for cause — in other words accountability. The Civic Facility may also exercise veto power in the appointment of a general manager or director.

In an RFP, the City will have the opportunity to specify where it feels the most critical problems lie at the Civic Facilities and the amount of time within which they would like those difficulties remedied. Typical goals and problems to address include: enhancing the facilities' profitability; improving employee efficiency; eliminating waste; renegotiating contracts with subcontractors, concessionaires, and unions; improving the marketing function; and increasing bookings. The contractor will work with the City to develop a plan to achieve those objectives.

The contract will specify how long the contractor has to achieve these goals (in most cases, three to five years is a reasonable period). Today, some management contracts include agreed-upon benchmarks whereby an extension of the agreement automatically takes effect if those goals are achieved by the operator.

The contract will also specify a base management fee plus incentives. The annual base fee for small properties such as theaters and auditoriums may be in the neighborhood of





\$60,000, while fees for larger, more heavily used arenas and multi-use complexes may range upwards of \$200,000 annually.

The base fee covers on-site supervision by management company personnel and corporate support (e.g., ongoing advice and recommendations). Depending upon the stipulations of the contract and the capabilities of the operator, the management fee may also cover such services as catering and banquet dining, marketing and sales, advertising and sponsorship sales, ticket distribution operations, security and crowd management, parking, building operations and maintenance, event management and promotion, insurance and risk management, and financial administration.

In many contracts, the base fee is accompanied by a series of incentive clauses tied to such measures as increases in profits, attendance, event days, bookings, gate receipts, and advertising proceeds; or in other cases, a percentage of the savings incurred by the municipality as a result of the operator's presence.

Additionally, staffing will be outlined at the beginning as well, for example, by submitting to the City a formal hierarchical chart and straightforward delineation of individual responsibilities prior to implementation of the agreement.

In Evansville, venues are managed through a contract with Spectator Management Group. Base management fees are as follows:

- Arena & Amphitheatre - \$164,000;
- Swonder Ice Arena - \$76,050;
- Victory - \$35,170;
- Centre - \$109,000.

In a contract agreement, the Civic Facilities should expect to pay a management fee of approximately \$130,000 per year.

Based on the previously mentioned advantages of contracting the management of the Civic Facilities, it can be conservatively estimated that the General Fund subsidy would be reduced to zero by FY2008-09 (with the only fee paid out of the General Fund being the \$130,000 management fee). It is assumed that because the City would need FY2003-04 to complete the RFP process and secure a contractor, it would not realize any subsidy reduction in FY2003-04. However, following this, the City would realize (compared to current projections) an estimated 50.0% reduction in FY2004-05, a 75.0% reduction in FY2005-06, an 85.0% reduction in FY2006-07, a 90.0% reduction by 2007-08 and a 100.0% reduction of the projected subsidy by 2007-08 (i.e. in FY2007-08 the City would only be responsible for paying estimated management fees to contractor). This scenario assumes that the contractor would receive an upfront management fee of \$130,000 for both facilities. Once the Civic Center is operating at a surplus (i.e. after FY2007-08), it will eventually receive a payment from the contractor representing a percentage of revenues.



Fiscal Year	Projected Subsidy	% Projected Subsidy Reduced by Contractor	New Subsidy*	Mgt. Fee	Actual Subsidy**	Undiscounted Savings to City***
2003-04	(\$642,130)	50.0%	(\$321,065)	(\$130,000)	(\$451,065)	\$191,065
2004-05	(\$450,795)	75.0%	(\$112,699)	(\$130,000)	(\$242,699)	\$208,096
2005-06	(\$464,049)	85.0%	(\$69,607)	(\$130,000)	(\$199,607)	\$264,442
2006-07	(\$463,774)	90.0%	(\$46,377)	(\$130,000)	(\$176,377)	\$287,397
2007-08	(\$465,689)	100.0%	\$0	(\$130,000)	(\$130,000)	\$335,689
<b>Totals</b>	<b>(\$2,486,437)</b>		<b>(\$549,749)</b>	<b>(\$650,000)</b>	<b>(\$1,199,749)</b>	<b>\$1,286,689</b>

\*Equals projected subsidy multiplied by % projected subsidy reduced by contractor.

\*\*Equals "new subsidy" less management fee.

\*\*\*Equals "actual subsidy" less projected subsidy.

### Discounting Methodology

As a newly suggested initiative that requires City Council approval, it is assumed that the fiscal impact of this initiative could begin to be reached after two years. Consequently, the potential fiscal impact will be discounted by 100.0% in FY2003-04 and FY2004-05. **Employing this level of discounting, the total fiscal impact of this initiative is \$887,528 and an eventual elimination of the General Fund subsidy of the Civic Facilities.** The following table demonstrates the discounted fiscal impact of this initiative:

#### DISCOUNTED FISCAL IMPACT OUTSOURCING THE CIVIC FACILITIES MANAGEMENT

	FY2003-04	FY2004-05	FY2005-06	FY2006-07	FY2007-08
Discount %	100%	100%	0%	0%	0%
Fiscal Impact	\$0	\$0	\$264,442	\$287,397	\$335,689

### B. Leasing the Civic Facilities

The City should consider negotiating a lease agreement for the Civic Facilities as a means to quickly eliminate the General Fund subsidy. In a lease agreement, the City would entrust a private company with the management of the Civic Facilities for a certain length of time, and the lessee would be free to operate the property in any manner, subject to restrictions written into the lease. This practice occurs most commonly with sports stadiums. Leasing is a cost-free way for the City to upgrade its Civic Facilities while retaining ownership and enjoying guaranteed access. Lessees usually pay a fixed percentage of revenues or ticket sales to the municipality and pocket all other revenues to cover expenses and profits. The San Diego Sports Arena and the Met Center (Bloomington, Minnesota) are examples of facilities that have been successfully leased.

Based on PFM's projections, the Civic Facilities will average \$604,125 in revenues from FY2003-04 to FY2007-08. Conservatively, the City could expect that it would receive



approximately 15.0% per year of its revenues as a lease payment, or \$90,619 on an undiscounted basis each year assuming that the Civic Facilities are leased over the next five fiscal years<sup>19</sup>.

### Discounting Methodology

This initiative will allow the City to effectively eliminate its General Fund subsidy once a lease agreement is reached. It is assumed that this agreement could be reached after a two-year negotiating period. Thus, the fiscal impact of this initiative is discounted by 100.0% in FY2003-04 and FY2004-05. **Employing this level of discounting, the total fiscal impact of this initiative is \$1,215,369 and an elimination of the City's General Fund subsidy of the Civic Facilities one year after the establishment of the lease agreement.** The following table demonstrates the discounted fiscal impact of this initiative:

#### DISCOUNTED FISCAL IMPACT LEASING THE CIVIC FACILITIES

	FY2003-04	FY2004-05	FY2005-06	FY2006-07	FY2007-08
Discount %	100%	100%	0%	0%	0%
Fiscal Impact <sup>20</sup>	\$0	\$0	\$404,668	\$404,393	\$406,308

### 3) ***A management initiative to sell the Civic Facilities, which entails the City relinquishing ownership of the Memorial Auditorium and Tivoli Theater.***

This initiative would relieve the City's General Fund subsidy of Civic Facilities' activities quickly, and would return to the General Fund revenue representing the assessed value of the Civic Facilities and property tax on that land each year. However, the City would lose its Civic Facilities, a staple of its tourism and cultural environment. **The total fiscal impact of this initiative is to be determined based on future City stipulations for a sale of the Civic Facilities.**

<sup>19</sup> Savings in any year from this initiative would be the management fee paid to the City plus the amount the City would have to pay in General Fund subsidy. For example, if the City received \$90,619 in management fee in a year in which it was originally projected that the General Fund subsidy would be \$300,000, the City would save \$390,619 on an undiscounted basis.

<sup>20</sup> Savings are calculated by adding the absolute value of the General Fund subsidy in a certain year to \$90,619 in revenues as a lease payment each year.



## A. Selling the Memorial Auditorium and Tivoli Theater

The City should consider selling the Civic Facilities to relieve the burden that running the Civic Facilities has placed on the General Fund. The current assessed value of the Memorial Auditorium and Tivoli Theater is \$3.0 million, suggesting that the City would be able to return this amount to the General Fund as there is no debt service outstanding related to the Civic Facilities. Additionally, while also being able to relieve itself from having to address the Civic Facilities' annual deficits, it would be able to generate annual property taxes from the facilities.

To sell the Civic Facilities, the City could use a competitive Request for Bid ("RFB") method that would allow it to select a buyer from a universe of entities that would provide the City with the most equitable terms.

In a sale agreement, much like negotiation if a contract for private management of a facility, the City would be able to outline the terms and specify what the land must be used for (e.g. the sale of the Civic Facilities contingent upon not abandoning the notion that they should be used to promote culture).

### Discounting Methodology

The City will realize revenue from the initial sale of the Civic Facilities and property tax thereafter. However, based on the terms the City outlines in its sale agreement, the amount the City receives for its Civic Facilities varies. **While this initiative would allow the City to eliminate its General Fund subsidy of the Civic Facilities after one year, an estimate of the amount of revenue remitted to the General Fund from the sale is to be determined.**

#### DISCOUNTED FISCAL IMPACT SALE OF THE CIVIC FACILITIES

	FY2003-04	FY2004-05	FY2005-06	FY2006-07	FY2007-08
Discount %	N/A	N/A	N/A	N/A	N/A
Fiscal Impact	TBD	TBD	TBD	TBD	TBD
General Fund Subsidy	TBD	TBD	TBD	TBD	TBD
<b>Fiscal Impact</b>	<b>TBD</b>	<b>TBD</b>	<b>TBD</b>	<b>TBD</b>	<b>TBD</b>



## **CHICAGO, ILLINOIS—CHICAGO THEATRE SALE OF THE CHICAGO THEATRE**

In 2003, the City of Chicago, Illinois initiated a request for bid (“RFP”) process to sell its Chicago Theatre. TheatreDreams, a Washington-based facility management organization, submitted the most aggressive bid, agreeing to pay \$3.0 million for the 3,605-seat venue, which had a long history of financial trouble and had reverted to city ownership. In conjunction with the sale, the city wrote off a \$21.0 million loan to the previous owners of the facility, on which they defaulted. Chicago taxpayers in effect underwrote the new deal.

As part of the terms of the sale, TheatreDreams agreed that the Chicago Theatre would remain a performing arts center in the city. Additionally, TheaterDreams committed to capital upgrades for the venue, which was last restored in the mid-1980s.

TheatreDreams has planned to present a season of touring Broadway shows, popular music, dance, gospel shows and jazz musicians. TheatreDreams also plans to move its headquarters to Chicago, and would create 25 or 30 new administrative positions in the city in the coming months.

The city expects that TheaterDreams will be a viable competitor in the Chicago market for performing arts shows. With TheaterDreams’ strong national reputation, it is expected to attract a wider array of pop and theatrical entertainment for longer-running seasons.

